KRAFT GENERAL FOODS CANADA

Kraft General Foods Canada

NOTE

Discussion and analysis of competitors is based on public information and internal modeling of competition developed by the Planning Department. Projections and discussions of future actions by competitors are primarily based on extension of historical trends within the context of Kraft General Foods Canada's forecasted food industry environment.

2024255876

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

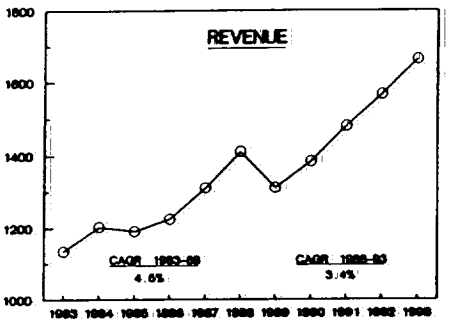
KRAFT GENERAL FOODS CANADA - 1988 STRATEGIC PLAN

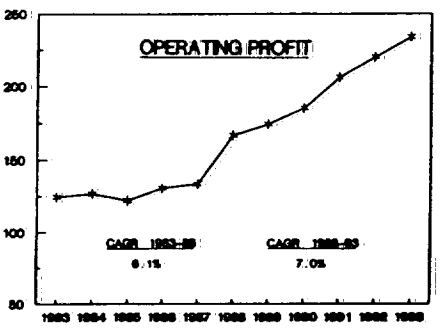
1. OVERVIEW

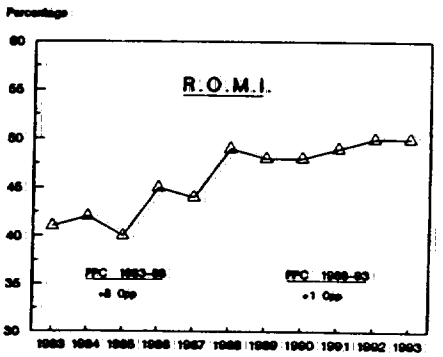
KGF Canada is the largest and most successful food company in the Canadian marketplace. Its solid overall profitability is built on its franchise strengths. Nineteen of its 23 major franchises are category leaders and twelve have shares in excess of 60%. It is from this solid base that the plan builds.

Both the Kraft and the General Foods business strategies are driven by the same goal: Kraft "To be the good food leadership company," and GF "To be the premier food and beverage company." There is a high consistency of strategies, programs and actions within the plans that will reinforce and build strength on strength as we combine the companies. The common strategies for KGF are:

Renew core business growth momentum
Build margins through productivity
Build customer focus to the level of consumer focus
Build people and organization for superior execution
Develop and acquire new businesses to build existing cores







The 1988-93 plan builds on the turnaround programs of the 1987 to 1989 period. It delivers increasing shareholder value on all key financial growth parameters. Moderate volume and revenue growth is driven by core franchise renewal and by food service expansion. Compounded earnings growth of 7% is driven by productivity and volume. This growth includes the impact of the recently completed merger of the Hostess Snack Food business with Frito Lay Canada, with the result that only 50% of the merged company's after tax income is included in our plan starting with C'90. The $30 million onetime Hostess gain from the merger has been included in the C'88 income. On a notated basis, which would include 100% of the expected Hostess results and exclude the one time gain, compounded revenue and income growth for KGF are 5% and 9% respectively. The plan reflects neither the costs nor the operating savings from integrating the Kraft and General Foods businesses into KGF Canada.

Canada faces three major challenges over the plan horizon. First we must boost our productivity. Canadian plants are efficient within the Canadian market and thought to be low cost producer in most categories. However, after Free Trade opens more categories to competition from the U.S., they will no longer have the same scale advantages now enjoyed relative to more limited Canadian competition. Therefore, the Canadian organization is moving to match higher U.S. productivity standards for run lengths of similar products.

2024255877

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Coffee, with nominal tariffs, meets this goal now. A 1989 recapitalization of powdered desserts and beverages in Cobourg is underway and we are in the midst of major program studies at Kraft's Ingleside and Mt. Royal facilities. To fund the necessary improvements, we will invest a total of $214MM in capital between 1989 and 1993. This is $89MM more than in the prior five year period.

Our second issue is attaining satisfactory profitability in ground coffee. We will establish and maintain a clear leadership position based on the successful outcome of the strategic initiative versus Nabob begun in early 1988. The goal is to get them to compete more on consumer initiatives and less on price alone. We will exploit our superior coffee portfolio and leverage the Maxwell House brand. Costs will be driven out at every opportunity.

Our third issue is defending our franchises, particularly those in the Kraft portfolio with high shares and margins. The first step is to renew all of these cores to discourage attack. This involves advertising exploiting proven product superiority and rigorous product testing to ensure all are indeed superior. Nonetheless, there will be attacks by local companies and by MNC's attracted across the border. We will continue to defend proactively and ferociously.

2. SITUATION ASSESSMENT

The history of the 1983 to 1988 period provides the perspective against which to understand the thrust of the plan and its attainability.

In the early years of the period, both Kraft and GF were experiencing flat volume performance and declining earnings. Kraft held its high margins and absolute profit levels by aggressive pricing and by supporting the core franchises at a rate inadequate to ensure long term vitality. Core franchises accordingly lost share to quality branded and private label competition. Meanwhile, new product activity was insufficient to drive real volume growth.

The Hostess business was attacked by Frito Lay who aspired to share leadership. Hostess profit eroded as stop gap defense activities were initiated on the belief that this was another of Frito's short term forays. Powdered beverage and dessert categories saw significant market declines as consumers moved to more convenient forms. Earnings across the Cobourg produced portfolio were held constant in real dollars at the historical high levels by reducing support. Growth in categories of meals and cereals plus further share gains from the very high levels in desserts and beverages were sufficient only to hold volumes flat. Coffee was faced with a share deadlock versus Nestle in soluble and versus Nabob in ground. The Canadian market was the only world market in which all three global players met on equal footing. The high margin, consumer driven soluble market was in inexorable decline as consumers moved to the ground form with its low margin, volume sensitive profit structure. CAFH, food service coffee, was growing but a small component of our total business.

In 1985, revitalization strategies were put in place in all businesses. Programs began in 1986. The goals were to generate volume and real earnings growth by focussing on core businesses, exploiting their potential with the consumer and against competitors and by increasing productivity.

2024255878

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Kraft began the core business turnaround employing a ferocious defense strategy on core franchises; cheese, pourables and viscous. Consumer support levels were restored and trade spending increased substantially. The food service scoping was completed and customer initiatives begun. Productivity targets and programs were identified with procurement yielding the planned gains in the period. Volume and earning growth targets were delivered in 1987 and 1988 as a result of these actions.

Hostess moved to the offensive behind a new strategy which emphasized aggressive consumer support, new product introductions and a move to superior product quality. Sustaining these strategies took profits down from 11% to 4%. Share, volumes and consumer measures grew across the board. In 1987, Frito Lay abandoned their strategy in its fourth year without accomplishing their goals. In 1988, Hostess took the initiative to restore profitability to the total industry. First, they successfully led a restructuring of trade spending practices despite punitive reactions from the retail trade and a slow follow by competitors. Finally, Hostess determined that industry rationalization was required and proposed a merger with Frito Lay. This also created a strategic partnering with the U.S.' strongest snack company in advance of the upcoming free trade environment. By year end the merger, on a 50-50 partnership basis, had been negotiated and received government approval.

Coffee instituted strategies for improving product quality versus competitors, with superiority the ultimate goal. A brand and benefit mapping set the product portfolio direction, resulting in profit and volume gains. Productivity programs were begun on ground coffee. Programs to exploit the core Maxwell House franchise in soluble and ground forms were initiated. Participation in the growing and profitable food service coffee market was sought. Two acquisitions in Western Canada of truck to store, direct companies were made, delivering share leadership in those regions and a base from which to expand eastward. Finally the program against Nabob to break the share deadlock and move to a target P&L was launched.

In the remaining dry packaged categories the strategy focussed on restructuring the portfolio and driving out costs. Cereals and meals franchises were fully funded to drive share and market growth. Desserts and beverages gained share in declining markets by adding light products with aspartame. Costs were taken out, with manufacturing productivity the primary focus. These savings were used to hold earnings while reducing price/margin windows to deal with private label competition and prepare for free trade.

Productivity thrusts at GF culminated in a 1988 restructuring of the business. The work force of 1900 salaried and hourly employees in the Coffee and Consumer Foods divisions was reduced by 230.

3. <u>BROAD ISSUES AND ACTIONS TO ACHIEVE PLAN GOALS</u>

The plan continues to be driven by the five basic strategies, extending and further validating the programs of the past few years. Seven areas are critical to achievement of the total goals.

<u>Productivity</u>, in the Operations plans, focuses on the capture and building of sustainable, unique competitive cost and quality advantages. This will be achieved largely by capital driven productivity. The Kraft operations program delivers $33MM in cumulative cost reductions, $17MM of which is committed over the first three years. GF programs, begun in 1988, commit and deliver $28MM over the same period.

2024255879

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Pricing has built high margins in salad products, pourables and viscous. Although we have been successful in holding these levels against competition the risk of a Unilever entry and increased private label pressure is clear. As tariffs come down under free trade this risk and downward pressure on margins to current U.S. levels will intensify. The plan assumes we will sustain support and broaden consumer offerings as the best defense. The margin risk is $8MM at 1989 levels. Further productivity is essential to offset this risk.

The Cheese business business must extend leadership and build profits. The plan is structured to achieve solid tonnage progress from Process Cheese growth and stabilizing and then building Natural Cheese volume. We will continue to lead the category restructuring. Higher earnings will be from productivity, procurement leverage as our share of industry tonnage grows and value added products.

Ground coffee profitability targets must be achieved. The strategic thrust against Nabob must achieve goals year by year as we build category leadership further. We will focus costs in value added areas while stripping costs out aggressively in all other areas to allow volume growth to improve margins. A merchant mind set is critical to ongoing daily execution.

Free trade will intensify competition and pressure margins. The major elements of the FTA are the elimination of all tariffs over a ten year period and a partial reduction in the non tariff barriers. However, unlike Europe 1992, the remaining non tariff barriers will restrict the movement of products between the two countries, resulting in markets separated only by the costs imposed by these barriers. Canadian manufacturing productivity levels must move from the best in Canada to the equal of U.S. plants for production run lengths of products meeting Canadian regulatory requirements. The capital plan directed at productivity is essential to reach this goal and to permit integrated North American sourcing in both directions as a margin building opportunity for total KGF. Finally, the major category risk is in the core salads products where we have high share, high volumes, low trade spending and substantially higher prices and margins than the U.S.. These categories could be attractive to a U.S. food processor viewing the market as an opportunity.

Attaining our growth targets for the total company will depend on food service where we are planning sustained, year to year profitable growth, on Post cereals which has been successfully expanding share and profit at double digit rates and, on meals products development success building from both Kraft and GF original categories.

Finally, the integration into KGF from the two founding companies must be done in 1989 without disrupting the momentum of the categories, without impacting the realization of the 1989 business plans and productivity programs and, retaining the motivation and creative inputs of our employees who are at the base of the success we have enjoyed in Canada to date. Although not in the strategic plan, this task offers an exciting glimpse into the future where we can harness the power of the combined business. Success in the integration will enable us to raise growth and earnings further and set the company for the challenges of the next decade.

2024255880

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

4. CORE CATEGORY HIGHLIGHTS

CHEESE	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
TONNAGE	(1.0)%	144.6	1.5%
SALES	3.0%	$370.3	4.8%
OPERATING INCOME	0.2%	$ 40.5	8.8%
INCOME % OF O.R.	(1.6)pp	10.9%	+2.3pp

Cheese is a core business and Kraft is the market leader in both process and natural categories. However, the cheese business did decline from 1983 to 1986 in tonnage and profitability, due to losses in market share caused by the entry and expansion of aggressive volume oriented competitors, who capitalized on our pricing ahead of cost, without spendback to defend the business.

A new strategy was adopted in 1987 to turn around the business, first in tonnage and then profitability. The key elements of this turnaround program were increased trade spending to neutralize competition, value-added consumer marketing programs to develop our core businesses, a comprehensive new products development drive to further differentiate us from competition and a cost reduction program to fund these investments.

As a result, volumes grew 1% in 1987 and 3% in 1988 and operating profits grew significantly in 1988, demonstrating the strong turnaround of the business.

To further improve profitability, margins have been increased in 1989 via pricing and cost reduction and it is anticipated that volume growth will slow. Growth will be rekindled in the period 1990-1993 via heavier marketing investments against core brands and new product introductions. Earnings will be driven by productivity, supplier management and technology. The key issue that we will face will be how we can further strengthen our leadership in the Canadian cheese industry in the face of dynamic competitive restructuring. We are closely monitoring this competitive restructuring and will act determinedly to further develop our share and profitability.

COFFEE	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
VOLUME (MSU)	3.1%	8.6	2.4%
OPERATING REVENUE	7.7%	$ 248.7	4.8%
INCOME FROM OPERATIONS	8.7%	$ 12.3	15.1%
INCOME % OF O.R.	+0.2pp	5.0%	+3.0pp

Coffee strategic action C'83-C'87 focussed against achievement of "The Best Coffee Company" mandate. Goals were to build overall retail market leadership, extending the lead in ground, building soluble share vs Nestle and significantly increasing CAFH participation via acquisition. Good progress was made. Coffee exited C'87 with total coffee market share parity with Nestle, up from an overall #2 position. CAFH presence was built from #4 to #2 via acquisition of Melrose, Dickson's and Chase and Sanborn food service coffee companies. Retail market leadership was strengthened via ground initiatives in Western Canada vs Nabob and maintenance of the strong position vs Nestle in soluble.

Activity for C'88, C'89 and beyond is focussed against outperforming Nestle and Jacobs who share KGF goals, development of the portfolio, improvement of retail coffee margins, North American integration and the continued integration and expansion of CAFH. The goal is clear leadership of the total coffee market. The core strategy is to focus on building the Maxwell House trademark as Canada's leading coffee brand.

Achieving these goals will require superior execution vs. two strong coffee competitors in Nestle and Jacobs. Entry of Nabob into the soluble segment will require a high priority defense, should it occur.

2024255881

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

SALADS	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
TONNAGE	1.5%	90.3	1.7%
SALES	9.4%	$129.0	7.2%
OPERATING INCOME	17.0%	$ 40.3	9.5%
INCOME % OF O.R.	+8.8pp	31.2%	+3.6pp

Salad products are a large, very profitable and growing core business. We enjoy well established share positions in both the pourables and viscous categories.

Pourables tonnage growth has been fueled by marketing programs behind Kraft, Calorie Wise and recently J.L. Kraft refrigerated. Marketing plans capitalize on consumer trends (fresh, health and light) in this flavour segmented market. We have held an 82% share despite increased competition in a flavour segment from Hidden Valley Ranch, on a benefit basis from Heinz-Weight Watchers and widened price gaps versus private label. In 1987, we experienced modest share erosion from small regional brands in niche positions for refrigerated pourables. In response, we introduced J.L. Kraft nationally in 1988. We have captured 30% of this segment after 8 months and are expecting to build to 40% in 1989. Achieving share leadership in the refrigerated segment will provide the base upon which to expand in the produce case via refrigerated sauces, dips and perhaps prepared salads in the period through 1993.

Viscous, with 65% share is large and a profit core for KGF. Miracle Whip and Kraft Mayonnaise compete in a stable competitive structure with some gains going to Private Label and to Hellmann's because of their consumer image. The market which has a 62% development versus the U.S. skews to Salad Dressing (Miracle Whip) which represents 70% of the category.

The growth driver has been light products with leadership for both Miracle Whip and Mayonnaise. Further value added segmentation will grow Miracle Whip, blunt Hellmann's and contain Private Label. Our efforts will focus on contemporizing the core business to gain share momentum versus competition. Cholesterol Free and Fat Free products will capitalize on the growing health trend.

Under Free Trade, profitability of Salad Products may move to U.S. levels over time. We enjoy list price premiums in the 40-50% range in viscous and share leadership in pourables that are vulnerable to attack from U.S. based suppliers such as Unilever. We are prepared to ferociously defend our market position.

HOSTESS (100%)	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
VOLUME	8.0%	9.5	6.5%
OPERATING REVENUE	11.3%	$214.7	11.1%
INCOME FROM OPERATIONS	(16.3)%	$ 5.9	48.8%
INCOME % OF O.R.	(8.0)pp	2.7%	+9.1pp

Early action designed to build Hostess' market position via increased Western Canada penetration and portfolio expansion C'83-C'87 was scaled back C'85 to defend Hostess' Eastern Canadian high ground vs Frito Lay. A new strategy was developed and executed which focussed on maintaining position in a heightened competitive environment. This was accomplished at significant short-term cost.

Phase II of the strategy commenced late C'87. Aggressive cost management and marketplace initiatives were introduced with subsequent gains in share and returns. The implementation of Federal Tax on Snack Foods and continuation of a high competitive environment depressed industry profit and market growth prospects. The C'88 strategic plan, highlighted the need for industry rationalization to combat these key detrimental market forces. Hostess commenced the process of securing a strategic partnership with Frito Lay in late C'87 to address this issue. The goal was achieved in C'88 with the formation of Hostess Frito Lay.

2024255882

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Forward plans to C'93 reflect a return to historical industry margins and activity focussed on building on the respective strengths of the companies.

DESSERTS & COLD BEVERAGES	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
VOLUME	(3.0)%	4.8	(1.9)%
OPERATING REVENUE	(3.7)%	$94.3	4.5%
INCOME FROM OPERATIONS	(2.9)%	$18.8	1.3%
INCOME % OF O.R.	+0.8pp	19.9%	(2.8)pp

Beverage and dessert action C'83-C'87 focussed on building share in markets experiencing long-term decline. Broadened offerings within the powdered form built leadership positions on all core trademarks.

The C'86 plan highlighted a major consumer shift toward convenience and freshness benefits. In recognition of this, base powdered trademark entries were repositioned against emerging consumer trends via new flavour and line extension introductions with positive result. In addition, opportunities in the ready-to-serve forms were highlighted as potential future growth engines. A measured diversification into 250mL ready-to-drink beverages behind proven trademarks was undertaken as was identification of acquisition candidates in the ready-to-eat form in Desserts.

Forward plans to C'93 focus on improving base business consumer alignment (microwave, single serve desserts, beverage segmentation) and cost. The ready-to-drink category is expected to remain intensely competitive as category participants seek to expand their positions in this growing market. Industry rationalization in RTD is expected but not assured over the timeframe. Further measured investment in the RTD form is planned. Entry into the ready-to-eat dessert form via acquisition is being planned for 1989.

KGF MAIN MEAL	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
SALES	5.4%	$97.8	11.1%
OPERATING INCOME	1.3%	$ 7.3	25.5%
INCOME % OF O.R.	(1.7)pp	7.4%	+6.3pp

Main Meal products in this combined Kraft/General Foods category include Kraft Mac'n Cheese, BBQ sauce, Pasta'n Sauce; Minute Rice, Shake'n Bake and Stove Top Stuffing mix. With the exception of the recent Pasta'n Sauce entry, KGF brands hold strong #1 positions in all categories.

During the period C'83-C'87, all entries grew or sustained category positions behind a strategy of consistent rejuvenation of base brand offerings. Competitive intensity increased dramatically in the latter part of this period in three core categories: Lipton in value added side dishes, Heinz peak season BBQ price discounting and Bulk rice price competition. In response, key action programs have been introduced in C'88-C'9 to blunt competitive advances with good result. These include revitalized base brand support for Mac'n Cheese, including advertising and a kid-directed line extension (Rockers), introduction of Delizioso to build position in adult side dishes, and a short-term price realignment for Minute Rice.

Forward action through C'93 focusses on a continuation of the successful strategic action currently in place. Shake'n Bake and Stove Top will continue to build leadership positions via flavour and product segmentation opportunities. Delizioso is being expanded in C'89 as will a new line of adult pastas, rice and potato side dishes. Minute Rice will introduce a significant quality improvement in C'89. In addition, a line of microwave specialty rices under the Minute Creations banner is scheduled for C'90. On BBQ, new capital investment will improve cost position vs. Heinz.

2024255883

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Achievement of category goals will require leadership of marketplace innovation and segmentation through the timeframe given the heightened competitive focus on this attractive growth segment.

CEREALS	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
VOLUME	6.7%	2.7	9.5%
OPERATING REVENUE	12.2%	$ 48.8	15.2%
INCOME FROM OPERATIONS	13.3%	$ 3.7	29.3%
INCOME % OF O.R.	+0.4pp	7.4%	+5.8pp

Cereals is a key growth vehicle for KGF. During the period C'83 to C'87, Post Cereals built its position in both Pre-Sweet and All-Family segments through successful introduction of new differentiated products (Fruit & Fibre) and support of core brands. Market growth has and will continue to benefit from strong consumer alignment.

Post has built to the #3 market position (from #4 in C'83) with a share in the 12% range. Strong share growth of +2.0pp has been registered from C'86. Forward action builds on the proven Post strategy. Business will be built via share driven volume growth through aggressive marketing of the current Pre-Sweet cereals, introduction of three new products over the strategic timeframe and development of an economic North American sourcing configuration.

An increased pace of new product introductions is anticipated from all competitors as they attempt to offset losses on core franchises to private label entrants and take advantage of market growth. Key to continuation of Post's success will be to, at minimum, match innovation in the marketplace through introduction of differentiated products and line extensions from strong core trademarks.

FOODSERVICE	CATEGORY HIGHLIGHTS		
	CGR/PPC '83-'88	'88 ACTUAL	CGR/PPC '88-'93
TONNAGE	4.1%	113.6	3.9%
SALES	7.5%	$ 112.6	8.8%
OPERATING INCOME	5.0%	$ 7.6	11.8%
INCOME % OF O.R.	(0.8)pp	6.8%	+1.0pp

Over the last 4 years, Foodservice has built a reputation as Canada's leading professional foodservice organization.

In 1985, the foodservice opportunity was recognized and our business required structure with dedicated resources to capitalize on it.

A scoping assessment set the strategic direction to grow the business with focussed organizational and customer programs, concentrating on core category share growth, and abandoning the direct option. The development of partnership customer oriented programs has resulted in +14.3% profit growth between 1985-1988.

To further build momentum, we successfully grew our Cheese, Salad and Condiment business through increasing penetration within major/key accounts such as McDonald's, K.F.C., Burger King and Wendy's. The upgrading of people and selling and development of an industry information base identified specific opportunity targets while contributing to profit maximization pricing and trade spending with tailor-designed programs.

Future growth depends on executional excellence, strengthening penetration of core products and volume expansion through augmented thrusts in cores such as Cheese with a competitive Mozzarella entry. This will be achieved in an environment where consolidation of distributors will mean increased demand for one stop shopping leveraging full line offerings. In addition, as more retailers, distributors and retail manufacturers participate in the foodservice market, we face increased pressures on margins. To sustain our current growth

2024255884

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

pattern and leadership position, we must pursue our focus on core businesses with close to the core product diversification, continue to build Operator/Distributor confidence and support by leveraging our marketing and manufacturing expertise with customer focussed programs and, selling beyond price while practicing "Business by Design."

5. FINANCIAL OUTLOOK

The plan projects average growth in operating income +7.0% 1993 versus 1988. When non-operating factors are excluded from 1988, the expectation is for +9.2% annual income growth. This is driven by +3.4% revenue growth and significant IFO margin gains from 11.8% in 1988 to 14.1% in 1993.

The key driver behind the consistent margin improvements is the scale of the productivity effort which is underway in both Kraft and General Foods. The margin improvement will drive ROMI on an operating basis from 43.3% in 1988 to 48.6% in 1993. Given that the plan does not include any of the significant potential savings from integration of Kraft and General Foods, it can be considered conservatively positioned from a financial perspective.

6. SUMMARY

The 1988 strategic plan is one of a company emerging from a transition phase to one of growth. Sustaining our core business and building from them is the growth driver. Productivity, with a major element resulting from capital spending, and achieving returns targets on natural cheese and ground coffee are the earnings driver. Free trade increases the imperative on productivity and will bring competitive and margin challenges to Canada from the U.S.. In addition, 1989 will see the integration into KGF as a major challenge and opportunity for the future successes.

Overall, we are confident of the plan and our ability to achieve it. The plan provides solid support levels, establishing necessary priorities and trade-offs within the business units. The plan recognizes the significant environmental changes and the challenge to meet consumer, competitor and customer demands.

The plan is based on the congruent missions and values of the founding companies. It is these missions and values that have created the leadership position in Canada that we enjoy today and will ensure continued achievement behind the new KGF mission.

2024255885

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KGF CANADA

US DOLLARS

FINANCIAL STATEMENTS

	1987 KGF	1988 KGF	1989 KGF	1990 KGF	1991 KGF	1992 KGF	1993 KGF
VOLUME	520,366	526,841	534,049	545,568	556,307	568,268	579,457
NET SALES	1,311,474	1,411,293	1,312,319	1,385,053	1,481,681	1,567,371	1,664,301
OPERATING REVENUES	1,311,474	1,411,293	1,312,319	1,385,053	1,481,681	1,567,371	1,664,301
VARIABLE COGS	771,873	823,363	779,761	809,391	867,287	912,510	965,122
SHIPPING EXP.	0	0	0	0	0	0	0
LIFO ADJUSTMENT	0	0	0	0	0	0	0
COST OF SALES	771,873	823,363	779,761	809,391	867,287	912,510	965,122
MARGINAL CONTRIBUTION	539,601	587,930	532,558	575,662	614,394	654,861	699,179
FIXED MANUFACTURING	35,000	39,000	31,000	31,000	32,000	33,000	35,000
AVAILABLE PROFIT	504,601	548,930	501,558	544,662	582,394	621,861	664,179
MARKETING	334,509	355,973	280,788	321,666	341,129	361,716	381,535
GENERAL & ADMIN	30,215	47,548	38,181	34,240	34,352	36,520	39,746
R & D	7,904	8,739	11,264	8,590	8,949	10,344	10,779
CURR. TRANS./HEDGING COSTS	0	0	0	0	0	0	0
OTHER (INC)/EXP	-1,541	-30,000	-3,000	-5,000	-8,000	-7,000	-2,000
TOTAL EXPENSE	371,087	382,260	327,233	359,496	376,430	401,580	430,060
INCOME FROM OPN'S BEFORE INTEREST, GOODWILL & ASSESMENTS/EXTRAORD. ITEMS	133,514	166,670	174,325	185,166	205,964	220,281	234,119

2024255886

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

12-Apr-89
03:28 PM

KRAFT GENERAL FOODS
GROUP: KGF CANADA
MANAGEMENT INVESTMENT

($ MM)

	1988	1989P	1990	1991	1992	1993
NET RECEIVABLES	66	94	98	104	109	115
NET INVENTORIES	173	177	187	196	204	213
PREPAID EXPENSES	15	19	20	20	21	22
NOTES PAYABLES	89	72	81	86	87	107
A/P & ACCRUED LIABILITIES	136	130	131	137	143	149
WORKING CAPITAL	29	88	93	97	104	94
NET PROP, PLANT & EQUIP	157	195	226	246	262	276
INV & ADV TO UNCONS SUBS	38	34	39	48	59	72
TOTAL Y/E MANAGEMENT INVESTMENT	224	317	358	391	425	442

2024255887

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

GROUP: KGF CANADA
CASH FLOW STATEMENT

($millions)

Source/(Use) of Funds	1988	1989	1990	1991	1992	1993
Income From Operations	$167	$174	$185	$206	$220	$234
Income Taxes	63	66	70	78	84	89
Net Income	103	108	115	128	137	145
Add: Net Corporate Assessments	0	0	0	0	0	0
Net Income Before Corporate Assessments	103	108	115	128	137	145
Amortization	0	0	0	0	0	0
Depreciation	20	19	16	19	20	21
Deferred Taxes	0	0	0	0	0	0
Change in Accounts Receivable	24	(28)	(4)	(6)	(5)	(6)
Change in Inventory	16	(4)	(10)	(9)	(8)	(9)
Change in A/P & Accrued Liabilities	1	(6)	1	6	6	6
Change in Income Taxes Payable	0	0	0	0	0	0
Other, net	(109)	(21)	3	(5)	(13)	5
Funds from Operations	56	68	121	132	136	162
Capital Expenditures	(31)	(46)	(49)	(41)	(44)	(46)
Other Invest & Acquis, net of Divest	1	(0)	(1)	(1)	(1)	(1)
Free Cash Flow	26	22	71	90	92	116
Long Term Debt Retired	0	0	0	0	0	0
Net Interest Expense(After Tax)						
Corporate Assessment(After Tax)						
Reduction of Untendered Kraft Stock						
Financing Provided	0	0	0	0	0	0
Change in Intercompany Account	$26	$22	$71	$90	$92	$116

2024255888

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Oscar Mayer Foods

NOTE

Discussion and analysis of competitors is based on public information and internal modeling of competition developed by the Planning Department. Projections and discussions of future actions by competitors are primarily based on extension of historical trends within the context of Oscar Mayer's forecasted food industry environment.

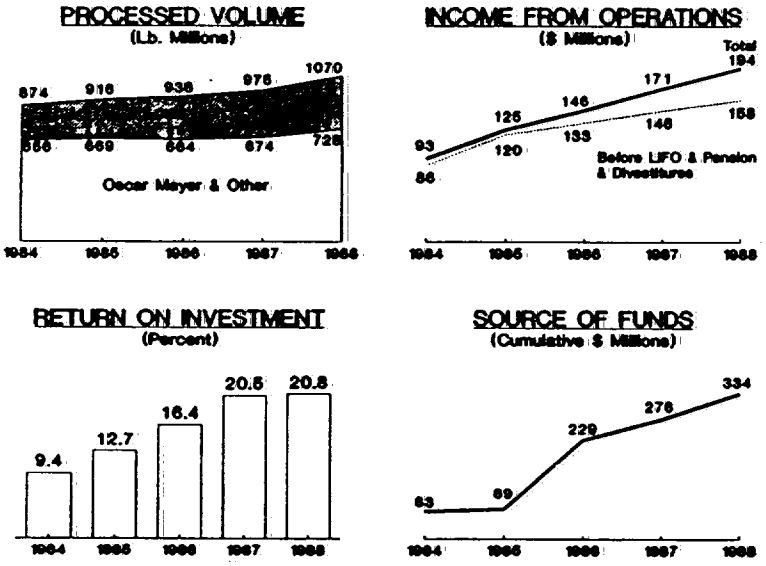
OSCAR MAYER

2024255889

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

OSCAR MAYER FOODS OVERVIEW

Oscar Mayer Foods has demonstrated sustained overall improvement in recent years.



As evidenced by recent performance, Oscar Mayer Foods Corporation is on strategy in addressing and meeting the strategic imperatives that are central to OMF's long-term success. These are:

- Through development, re-shape the business portfolio to provide operating income growth on the average of at least 10% over time.
- Achieve volume and real earnings growth of 2 to 4% for the OM brand base business.
- Continue to emphasize volume-driven earnings growth for the Louis Rich brand business to capitalize on consumer trends toward greater poultry consumption.
- Balance development priorities to reflect resource constraints and funding limitations imposed by earnings expectations.

Since the Oscar Mayer brand represents 66% of OMF's revenue and 79% of income from operations, achieving volume-driven real earnings growth in this business continues to be critical to achieving total OMF growth objectives. Improved Oscar Mayer growth will be achieved by continuing to gain share in existing product lines and broadening the product portfolio in other existing red meat categories as well as creating innovative new products such as Lunchables, a single serve, ready-to-eat lunch; and Zappetites, a line of frozen microwaveable snacks.

Poultry consumption has continued to increase as more consumers discover the health and cost benefits of poultry relative to red meats. Louis Rich has provided OMF with a means of capitalizing on this consumer trend by building a leading market position in further processed turkey. Louis Rich's processed volume has grown 12% annually over the last four years. Sustaining attractive growth for Louis Rich will require major investments in new capacity and continued new product development. Maintaining market share and achieving premium prices are critical to meeting Louis Rich earnings targets.

2024255890

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

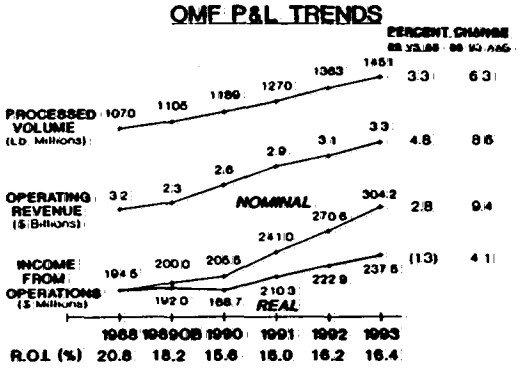
Oscar Mayer Foods Overview (Cont'd.)

The Louis Kemp Seafood Company is OMF's vehicle for exploiting the rapidly growing, fragmented surimi seafood market. The strategy for establishing a leadership position in this industry is similar to the successful strategy used for Louis Rich: Focus on premium quality consumer products, create a national brand franchise, leverage OMF's sales force to build distribution, develop new products, and ensure capability as a low-cost producer.

Recent test market results for OMF's other key development projects (Lunchables and Zappetites) continue to indicate probable successes. Consequently, funding costs have risen placing a short-term burden on base business margins to meet earnings targets. Longer term, OMF volume and earnings growth expectations have increased vs prior plans with development projects being a key contributor.

OSCAR MAYER FOODS FINANCIAL OVERVIEW

Ongoing execution against existing base business strategies along with development initiatives will enable OMF to continue to deliver volume-driven earnings growth and return above industry norms.



The C'88 Strategic Plan reflects higher volume and earnings expectations than previous plans as a result of recent base business performance, and improved prospects for development opportunities.

- The C'88 plan calls for average annual volume growth of 6.3% versus 4.7% in the C'87 plan and 3.3% in C'86.

- The C'88 plan calls for earnings before divestitures to grow at an average annual rate of 12.2% versus 8.8% in the C'87 plan and 7.6% in the C'86 plan.

The Louis Rich brand is expected to provide over half of total volume growth with the remainder coming from the Oscar Mayer brand and development projects.

The development program is the largest source of earnings growth over the planning period. Near-term, these projects will require investment spending of $42MM and $16MM respectively over the next two years while generating earnings of $43MM in 1993.

2024255891

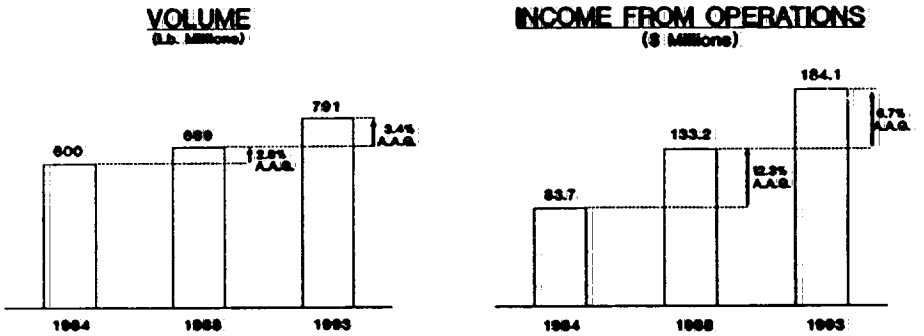
Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Return on investment will continue to exceed industry averages but is expected to decline from current levels, which reflect divestiture gains from the sale of Prima stock in 1988 and 1989. Return is also reduced by capacity investments needed to provide anticipated growth for which benefits will occur in later years.

Increased levels of capital spending are required to achieve the higher volume growth in this plan. Expenditures of $743MM over the planning time frame have been included as follows:

Louis Rich	-	$369MM
Oscar Mayer	-	$265MM
Development & Other	-	$109MM

OSCAR MAYER BRAND REVIEW
(Excludes Lunchables and Zappetites
Which are Included in the Development Review)

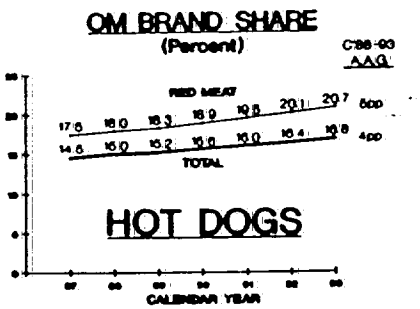


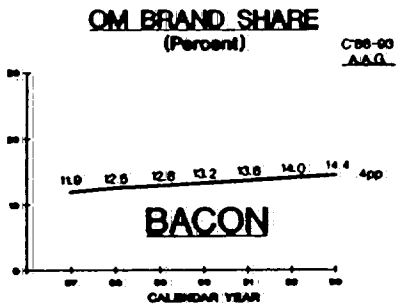
The red meat industry is being affected by two major consumer trends:

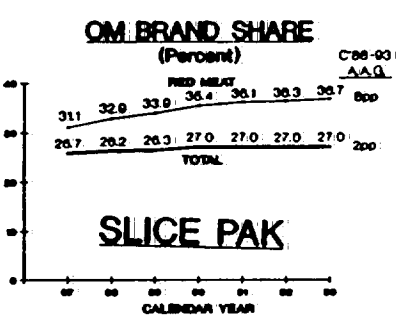
1. Poultry continues to gain total category share at the expense of red meats.

2. Within red meats, consumers are switching away from traditional product varieties toward more lean alternatives.

Total volume in OMF's key processed meat categories is expected to be flat to slightly declining in the planning time frame. Red meat volumes are expected to decline 1.0% in hog dogs, 1.5% in bacon, and 1.9% in slice pak. Despite declining trends in red meat categories, the Oscar Mayer brand has managed to gain volume through share gains and strong foodservice growth. This year's plan calls for continued share gains to be driven by line extensions which address consumer trends for leaner varieties such as center-cut bacon, a "lite" line of hog dogs and bologna, and more lean meat varieties in slice pak. Volume growth of 3.4% annually is expected.







2024255892

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Oscar Mayer Brand Review (Cont'd.)

Projected earnings growth of 6.7% per year reflects the higher volume growth and maintenance of current margins on an inflation adjusted basis.

The OM brand strategy has been built around a focus on quality leadership in key value-added processed meat categories. The OM brand is the share leader in the three largest product categories.

Leadership Positions In Key Processed Meat Categories

Category	Retail Size (MM lbs.)	No. 1 Position		No. 2 Position	
Slice Pak	665	Oscar Mayer	(26%)	Louis Rich	(9%)
Hot Dogs	725	Oscar Mayer	(15%)	Hygrade	(13%)
Bacon	580	Oscar Mayer	(12%)	Armour (Conagra)	(6%)

OM products in our key categories perform the best or among the best in consumer tests. OM products cost more, but consumers perceive their added value to be worth it. Maintaining OM's product quality superiority and the value added by the trademark are central to sustaining the premium pricing OM commands in the market place.

Marketing Strategies

The Consumer Products Division will continue to focus on execution against three key thrusts which have proven to be winning strategies in building Oscar Mayer brand volume.

1. Improve the price/value positioning for existing lines.

2. Focus marketing programs on localized/regional competition.

3. Broaden the portfolio through line extensions and into new categories which are compatible with the trademark's current positioning.

An important short-term issue facing the brand is to maintain a balance between price premiums and share growth momentum. Funding for development projects places additional pressure on the core Oscar Mayer brand business to sustain OMF earnings momentum and meet earnings targets. Current price premiums are at historically high levels and have precipitated share weakness in recent months.

The importance of adding value to existing lines and broadening the portfolio is demonstrated by the large number of initiatives underway; e.g.: Zip Pak bacon package, resealable slice pak package, Center Cut Bacon, "lite" line of hog dogs and bologna, penetration of pouched sliced meat, pork sausage, and smoked sausage categories, lean meat line expansion, a mid-tier entry strategy.

2024255893

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Oscar Mayer Brand Review (Cont'd.)

The plan calls for A&P expenses to be held near current per unit levels with local marketing funds remaining at about 20% of total. Media creative will place more emphasis on product news and lean meats. Hot dog and bologna brand image media programs will be combined to achieve spending efficiency.

The Foodservice Division will continue its strategy of focusing on emphasis products to target market segments where OM's premium quality positioning is appropriate. Dedicated sales and marketing teams will continue to target fast food chain and convenience store opportunities. New in this year's plan is the addition of vending as a target market segment appropriate for the Lunchables line of product and GF refrigerated desserts. Other growth opportunities include convenience store carry-out foods, pre-cooked breakfast meats, and pre-sliced luncheon meats.

OM Foodservice Division volume is expected to continue to exceed industry growth. The projection includes average annual volume growth of 8.2% vs expected industry growth of 2-3%.

Operations Strategies

- Run existing facilities better
- Continue aggressive cost reduction programs
- Provide superior quality and customer service

Operations Division strategies continue to focus on achieving a more competitive cost structure and providing expected manufacturing and distribution capacity needs. Key tactical programs include increasing line and facility utilizations, developing a more positive cooperative culture, and leveraging quality management through Manufacturing Process Control (MPC).

Ongoing efforts to reduce costs in areas which do not affect quality continue to generate about $10 million in savings annually. Achieving savings beyond this level will require significant changes in facilities structure, operating practices, and labor strategies as well as significant capital investment.

Labor strategies will continue to focus on three areas:

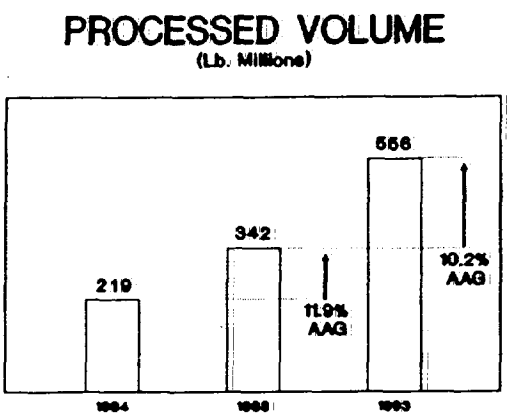
1. Averaging down labor costs without further reductions to existing wage levels.
2. Mitigating the impact of local plant negotiations and potential work stoppages by varying contract expiration dates.
3. Changing work rules and the work environment to accommodate higher productivity and throughput levels.

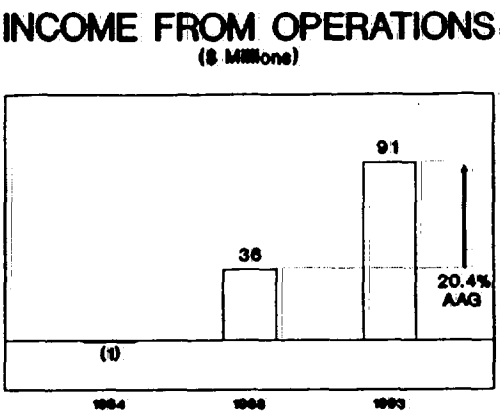
2024255894

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

LOUIS RICH BRAND REVIEW

Financial Performance





Louis Rich continued to achieve strong volume gains in 1988. Total processed volume was up 13.7% over 1987, and average annual growth since 1984 has been almost 12%. Processed volume is projected to grow 10% annually during this strategic plan. New products are projected to provide about 2% of the expected growth. Growth of existing products is projected to be 8% per year, which is consistent with total category growth and more aggressive behavior by Butterball (Beatrice) and BilMar (Sara Lee).

Earnings have improved dramatically in the past few years; however, 1988 earnings were less than 1987 due to difficult industry commodity conditions. Higher grain prices due to the drought significantly increased costs, while excess turkey inventories from the industry's aggressive expansion from 1985-1987 restrained prices early in 1988. Louis Rich's strategy of focusing on value-added branded products allowed it to perform much better than the break-even level achieved by most competitors in 1988.

From 1988 to 1993, earnings are projected to grow about 20% per year, driven by continued volume growth and cost reductions from planned capital expenditures.

Louis Rich is the industry leader. Although several competitors produce almost as many pounds of turkey, Louis Rich is much larger when measured by revenue because of its emphasis on higher value further processed products. When ranked by further processed turkey revenue, Louis Rich is about 3.5 times as large as the nearest competitor. Louis Rich is the market share leader in key further processed product categories (Slice Pak, Foodservice and Deli Breasts, Hot Dogs, BRoT) which represented 72% of total Louis Rich revenue in 1988. Butterball (Beatrice Meats) and Mr. Turkey/BilMar (Sara Lee) are the most important competitors.

2024255895

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

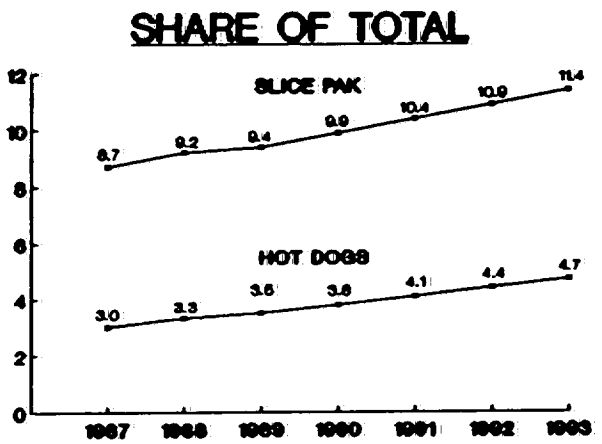
Marketing Strategies

- Emphasize high quality, branded products at premium prices.
- Strengthen leading national consumer franchise.
- Leverage sales and distribution systems.
- Develop innovative new products.
- Balance sales mix across distribution channels.

The basic marketing strategies which have enabled Louis Rich to gain a leading position in further-processed turkey continue to be appropriate for this plan. There is, however, a need to closely monitor relative value in order to balance earnings expectations with continued long-term growth. Higher price premiums in the past few years have helped meet earnings expectation, but have also widened the price gap versus turkey competitors and reduced or eliminated the value advantage which turkey had enjoyed relative to red meats. Tactical and strategic responses will emphasize increased value rather than price reductions. Examples of these efforts include programs to enhance brand value through increased consumer communication, developing improved reclosable packaging, converting to an improved package for non-peggable sliced meats, and introducing product improvements such as bun-length hot dogs.

Local marketing activity will be expanded to recognize and deal with the regional nature of key competitors. Market shares in 1988 were significantly improved in the markets chosen to test Louis Rich local marketing programs.

Market share of the total slice pak and hot dog categories is expected to grow reflecting consumer preferences for poultry and strategy refinements.



New product development efforts will be concentrated on breakfast meats and an improved fresh ground turkey. The retail market for breakfast meats represents about one billion pounds of annual volume, and turkey can provide substantial consumer benefits in the form of reduced fat and calories. Successful concept tests have been completed for turkey bacon and breakfast sausage and product prototype work is underway.

2024255896

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Louis Rich Brand Review (Cont'd.)

Ground turkey is a dramatically growing category, for both frozen and fresh products. To date, Louis Rich has been a successful competitor in the frozen market only, where 1988 growth exceeded 80%. Several competitors have a head start in fresh ground turkey, a market of higher consumer interest and growth. A new product introduction is scheduled for 1989 which will provide an opportunity to upgrade profitability and consumer interest in Louis Rich's fresh turkey product line.

The foodservice and deli markets are an important marketing opportunity for Louis Rich, accounting for almost half of breastmeat revenue. Prices and margins for these markets are highly sensitive to commodity price changes. Although prices and margins can be significantly affected by commodity conditions in a given year, on the average these markets perform as well as consumer branded products and help provide scale economics for the foodservice sales force.

Operations Strategies

Louis Rich operations strategies are currently dominated by the need for increased production capacity. During the past five years, Louis Rich's sales volume of processed products has increased by 12.4% annually. This growth has been accomplished with minimal capital investment through productivity improvements and new equipment at current plants, as well as the addition of two small single-purpose plants. Outside purchases of raw materials have increased substantially to keep up with volume growth.

All Louis Rich facilities are operating at or above their maximum design capacity. Both product and employee safety are at the advisable limits and substantial cost penalties created by short-term capacity fixes are threatening Louis Rich's ability to maintain a competitive advantage.

In order to meet the projected 10.2% annual volume growth from 1988 to 1993, a new $104MM facility to be located in Sedalia, MO has been appropriated for, and the Tulare, CA plant, now under construction, is scheduled to begin operating in 1989. In addition to providing incremental volume growth, these facilities will provide substantial cost reductions in raw material procurement, distribution costs, labor, and overhead. Both new facilities also utilize advanced technology and processes to provide quality improvement and superior product safety at competitive costs.

The new Sedalia plant is scheduled to begin operating in 1991. In order to meet expanded sales requirements for 1989 and 1990, the Modesto, CA plant, which was scheduled to be closed when Tulare opened, will continue operating.

In addition to the new facilities, the Louis Rich facility strategy calls for investment at the West Liberty, IA and Newberry, SC plants. Proposed investments will improve quality, reduce costs, and eliminate overcrowding in employee facilities which is hurting employee relations efforts at these facilities.

DEVELOPMENT REVIEW

Achieving volume driven earnings growth of ten percent per year over time requires that OMF extend its portfolio beyond existing businesses. Three key development projects are being pursued to enhance OMF growth potential.

2024255897

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Lunchables

Test market results for OM Lunchables, a line of pre-packaged, ready-to-eat lunches continue to exceed expectations. National rollout begins in 1989; but, if strong volume continues, it may not be completed until 1990 because of capacity constraints. A series of additional Lunchables items will be introduced during this plan to maintain leadership and maximize economies of scale. Lunchables is projected to reach sales of 45-50 million pounds while generating about $20 million in operating earnings in the latter years of the plan.

Lunchables Financial Projections
($ Millions)

	1988	1989	1990	1991	1992	1993
Volume (Lb. Millions)	0.7	20.4	40.8	45.6	47.8	49.4
Revenue	2.4	70.3	151.2	172.6	184.9	195.8
Income from Operations	(5.8)	(25.9)	(2.6)	14.3	19.3	21.7
Capital Expenditures	6.7	20.5	7.1	-	-	-

Louis Kemp

OMF's objective is to establish the Louis Kemp Seafood Company as the leading brand in a new refrigerated, ready-to-eat seafood category. Key strategies are:

- Achieve clear consumer preference for Crab Delights product and packaging.
- Complete national rollout of Crab Delights in 1989 to establish consumer franchise in surimi seafood.
- Develop depth in the product line to capture scale economies.
- Opportunistically capture foodservice/bulk retail volume to utilize capacity efficiently and fund development work.

Results in initial lead markets are encouraging. Louis Kemp has achieved top market share in each rollout market while growing the market by an average of 79%. Additional capacity has been purchased in Olympia, WA to provide for national expansion.

KEMP FINANCIAL PROJECTIONS
($ Millions)

	1988	1989	1990	1991	1992	1993
Volume (Lb. Millions)	5.5	17.1	30.6	43.7	56.4	59.2
Revenue	13.3	46.7	82.1	119.4	157.7	169.6
Income from Operations	(4.0)	(7.1)	2.1	6.5	15.1	17.1
Capital Expenditures	4.6	8.6	9.0	.8	4.8	4.8

Zappetites

Zappetites, a line of frozen microwaveable entrees, provides OMF the opportunity to become a leader in the rapidly growing microwave food category. Although the competitive environment in the frozen food business is intense, Zappetites is performing well in initial test markets.

2024255898

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Zappetites (Cont'd.)

Production will be primarily centered at Powell Valley Foods, supplemented with co-packed product from Ariston. Distribution will be accomplished with brokers and the KGF frozen system.

MICROWAVE FINANCIAL PROJECTIONS
($ Millions)

	1988	1989	1990	1991	1992	1993
Volume (Lb. Millions)	--	5.1	27.2	33.6	36.0	37.7
Revenue	0.1	19.4	107.1	137.7	153.9	172.6
Income from Operations	(8.9)	(13.3)	(19.4)	2.5	9.8	18.6
Capital Expenditures	2.5	7.9	3.5	--	--	--

OTHER BUSINESSES

Claussen

The Claussen pickle business achieved record earnings in 1988 and reversed prior year declines in volumes and shares during the second half.

Given the competitive environment and economics of refrigerated vs shelf stable pickles, Claussen is pursuing a niche strategy of being the premier quality product in the market.

- Price at a premium to Vlasic and other shelf stable pickles to support higher quality positioning as well as to provide satisfactory earnings and returns.
- Pursue creative strategy which emphasizes superior product attributes.
- Test consumer preference of new plastic jars.
- Reduce raw material cost disadvantage.
- Build new relish and spear product entries which upgrade margins.
- Explore new opportunities beyond pickles.

International

The International Division strategy focuses on two objectives:

1. Providing long-term growth opportunities by expanding trademark presence to all attractive world markets through export sales and licensing agreements with strong local partners.

2. Generate incremental returns on OMF investments in research and development through royalty generating technical assistance agreements without equity participation.

OMF's 25% equity interest in Prima Meats of Japan has provided superior financial returns as OMF has capitalized on the strong rise in the Japanese yen and stock market to gradually sell and reduce its interest to the current 5%. Further sales are being negotiated for 1989 but may not be possible if we wish to maintain an expected royalty stream of $2.5 million annually.

Exports of Oscar Mayer and Louis Rich brand products provide a steady source of volume and earnings. International exports plus royalties are expected to generate $36 million in income from operations over the planning time frame about 3% of total OMF earnings.

2024255899

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

OSCAR MAYER FOODS CORPORATION

I. INCOME STATEMENT ($ Millions)	1983 Pro Forma	1988 Actual	1983-88 Avg. Annual Change	1989 08	1990	1991	1992	1993	1988-93 Avg. Annual Change
Processed Volume (Lb. Millions)	887.4	1070.2	3.8%	1104.6	1189.2	1270.5	1362.8	1451.2	6.3%
Net Revenue	1758.0	2200.0	4.6%	2306.5	2622.5	2859.8	3086.7	3319.9	8.6%
Royalty	3.2	4.2	5.6%	4.0	3.8	3.9	4.2	4.3	.5%
Operating Revenue	1761.2	2204.2	4.6%	2310.5	2626.7	2863.7	3090.9	3324.2	8.6%
Variable Costs	1212.5	1297.5	1.4%	1330.8	1480.7	1600.1	1721.3	1856.9	7.4%
Shipping Expense	102.4	142.1	6.8%	147.9	180.5	204.0	227.8	251.3	12.1%
LIFO Adjustment	-1.3	4.8	NA	7.0	-3.9	2.8	2.1	3.4	--
Cost of Sales	1313.6	1444.4	1.9%	1485.7	1657.3	1806.9	1951.2	2111.6	7.9%
Marginal Contribution	447.6	759.8	11.1%	824.8	969.4	1056.8	1139.7	1212.6	9.8%
Fixed Costs	177.6	205.5	11.5%	221.5	255.6	276.8	296.8	306.1	8.3%
Available Profit	270.0	554.3	15.5%	603.3	713.8	780.0	842.9	906.5	10.3%
Marketing & Sales	160.2	343.9	16.5%	389.5	473.2	497.5	529.9	557.4	10.1%
General & Admin.	18.3	24.7	6.2%	22.2	23.9	28.2	26.8	26.7	1.6%
Research & Development	7.8	15.3	14.4%	17.4	16.8	18.9	21.2	23.8	9.2%
Other Deductions	-6.5	-23.3	NA	-25.2	-5.0	-5.0	-5.0	-5.0	--
Total Expense	179.8	360.6	14.9%	403.9	508.9	539.6	572.9	602.9	10.8%
Equity	0.9	0.8	-2.3%	0.6	0.6	0.6	0.6	0.6	-6.5%
Income from Operations	91.1	194.5	16.4%	200.0	205.5	241.0	270.6	304.2	9.4%

2024255900

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

12-Apr-89
03:28 PM

KRAFT GENERAL FOODS
GROUP: OSCAR MAYER
MANAGEMENT INVESTMENT

($ MM)

	1988	1989P	1990	1991	1992	1993
NET RECEIVABLES	122	122	144	156	168	180
NET INVENTORIES	161	165	188	199	212	225
PREPAID EXPENSES	7	5	5	5	5	5
NOTES PAYABLES	0	0	0	0	0	0
A/P & ACCRUED LIABILITIES	220	184	182	192	204	215
WORKING CAPITAL	70	108	155	168	181	195
NET PROP, PLANT & EQUIP	472	577	696	767	816	924
INV & ADV TO UNCONS SUBS	18	16	16	16	16	16
TOTAL Y/E MANAGEMENT INVESTMENT	560	701	867	951	1,013	1,135

2024255901

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

GROUP: OSCAR MAYER
CASH FLOW STATEMENT

($millions)

Source/(Use) of Funds	1988	1989	1990	1991	1992	1993
Income From Operations	$195	$200	$206	$241	$271	$304
Income Taxes	74	76	78	92	103	116
Net Income	121	124	127	149	168	189
Add: Net Corporate Assessments	0	0	0	0	0	0
Net Income Before Corporate Assessments	121	124	127	149	168	189
Amortization	0	0	0	0	0	0
Depreciation	37	46	49	59	65	70
Deferred Taxes	0	0	0	0	0	0
Change in Accounts Receivable	(8)	0	(22)	(12)	(12)	(12)
Change in Inventory	(18)	(4)	(23)	(11)	(13)	(13)
Change in A/P & Accrued Liabilities	53	(36)	(2)	10	12	11
Change in Income Taxes Payable	0	0	0	0	0	0
Other, net	(46)	(8)	(16)	(13)	(64)	6
Funds from Operations	139	122	113	182	156	251
Capital Expenditures	(112)	(149)	(160)	(134)	(118)	(183)
Other Invest & Acquis, net of Divest	21	0	(7)	5	5	5
Free Cash Flow	48	(27)	(54)	53	42	73
Long Term Debt Retired	0	0	0	0	0	0
Net Interest Expense(After Tax)						
Corporate Assessment(After Tax)						
Reduction of Untendered Kraft Stock						
Financing Provided	0	0	0	0	0	0
Change in Intercompany Account	$48	($27)	($54)	$53	$42	$73

2024255902

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Kraft General Foods Frozen Products

NOTE

Discussion and analysis of competitors is based on public information and internal modeling of competition developed by the Planning Department. Projections and discussions of future actions by competitors are primarily based on extension of historical trends within the context of Kraft General Foods' forecasted food industry environment.

KRAFT GENERAL FOODS FROZEN PRODUCTS

2024255903

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KRAFT GENERAL FOODS
FROZEN PRODUCTS GROUP
STRATEGIC PLAN
APRIL, 1989

SUMMARY

The Frozen Products Group has not yet developed a formal mission or vision. However, KGF is already the largest manufacturer of Frozen Foods in the world and we expect to set goals to further extend this leadership position. The six businesses that comprise the Frozen Products Group all have aggressive growth plans, which when combined with what appear to be significant synergy opportunities, should produce major tonnage and financial growth. This Strategic Plan represents an "add up" of the individual businesses and does not yet reflect synergy opportunities or potential expansion into other Frozen Products segments.

Net sales for the Frozen Products Group will increase to $3.2 billion in 1993 from $2.0 billion in 1988 fuelled by new products, growth in the current businesses and, geographic expansion. The sales growth, cost controls, and leveraging of fixed costs will produce operating income of $345MM in 1993, two and half times the $134MM in 1988. ROMI is planned to be 35% in 1993, up 13 percentage points over 1988.

In addition to the key strategic objective of capturing synergy opportunities we have identified five key strategic issues which will be addressed over the coming months:

- The novelty business must be made more profitable and predictable.
- Ice Cream profitability needs to improve behind the growth of low/no fat products and more effective and efficient distribution systems.
- Tombstone needs to finalize expansion plans, including evaluation of various distribution alternatives.
- The new products program at All American Gourmet must be further clarified.
- Birds Eye returns must improve.

SITUATION ANALYSIS

Industry Assessment

Frozen foods account for well over $20 billion in annual retail sales. The compound average dollar growth for the industry was 4% for 1985-1988. Convenience and variety continue to fuel this growth. Continued increases in microwave penetration and usage, the increase of women in the work force, shrinking household size, a rapidly growing senior population, and the reduced predominance of the traditional family meal all bode well for continued growth in convenient, fully prepared frozen foods.

2024255904

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

The frozen foods category is highly competitive. Most segments are fragmented, with large, multi-billion dollar food companies representing the majority of nearly all segments. Overall, there are few points of competitive advantage and significant brand switching occurs in most segments as consumers seek variety and value. In the future competitors with the strongest brands and the most efficient business systems will succeed.

The retail trade continues to increase in sophistication. The tremendous influx of new products and line extensions combined with limited warehouse and shelf space has led to substantial escalation of introductory costs for new products. We expect a continuation of an emerging trend of the trade moving away from their own frozen warehouse to distributors and store door delivery systems.

Outside the freezer case, increasing competition is coming from the takeout, delivery, and refrigerated food areas. While these products are difficult to inventory in the home, the favorable consumer perceptions of quality, freshness, and preparation convenience are likely to lead to continued growth for each. Frozen food must be competitive with these established and emerging alternatives.

Revolutionary changes in technology and supplier relationships are not anticipated. Nevertheless, innovations in ingredient substitutes (fat, sugar and salt) and microwave and freezing technologies and quality supplier relationships should provide sources of competitive leverage.

Operating Company Environments

The following are highlights of individual operating company external environments.

o AAGC

- Frozen meal growth continues based on favorable consumer trends; Italian and Mexican segments growing rapidly
- Consumers shifting purchases to mid-price offerings, away from high end; competition intensifying in mid-price segment
- New item introductory cost escalating due to new item proliferation and space constraints

o Tombstone

- Total pizza category growing rapidly, but frozen losing unit volume share to pizzerias/home delivery
- Tombstone under pressure from takeout, home delivered and deli pizza and moderate price, good quality frozen pizza
- Increased trade deal pressures despite superior D.P.P. via DSD

o Lender's

- Bagel category growth continues at double digit rates; beginning to see shift from fresh to frozen due to availability of superior price/value premium frozen bagels

2024255905

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

- Sara Lee share steady at 18-20%, but increasingly concentrated in the Northeast
- Large, New York style bagel gaining share in high development areas
- In-store bake segment increasingly competitive

o Dairy

- Ice Cream, cottage cheese and sour cream categories declining slowly; yogurt category growing (+9% in 1988)
- Lower fat/calorie segments within the categories are growing rapidly
- Dairy industry very fragmented and regional
- Trend toward consolidation of wholesalers, distributors, and suppliers

o Birds Eye

- Raw material supply and price problems due to drought
- Competitive new product introductions increasing
- Private label totals 51% of market
- Prepared vegetable segment growing 3% annually, regular segment flat

o Frozen Desserts

- Novelties category flat to declining slowly; toppings market grew 1% in 1988
- Novelties category in midst of shakeout with major competitors for sale or withdrawing
- Trade more aggressive - demanding slotting, giving new products only 8-12 weeks before discontinuing
- Consumer concerns about coconut oil, a main ingredient in Cool Whip

Operating Company Internal Positions

The Frozen Foods Group today is a collection of freestanding operating companies with leading brand positions in their respective segments and each with its own complete, functionally-oriented business system. This results in the critical importance of high quality leadership from the president and individual functional department heads within each organization.

The following provides a brief assessment of each company's internal position:

o AAGC

- Strengths
  - o Entrepreneurial, senior people, able to move fast.
  - o Proven track record of new product successes
- Weaknesses
  - o Must continue to improve product quality/consistency, which has already improved much
  - o Lower consumer awareness than competitors. Budget Gourmet awareness now up to 71%; Stouffer's and Weight Watchers are over 90%.

2024255906

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FPG STRATEGIC PLAN

- Tombstone
  - Strengths
    - Highly effective DSD system, a very powerful selling tool
    - Strong brand identity and equity in established geography
    - Consistent quality production, but product improvements needed
  - Weaknesses
    - High cost structure due to DSD and lack of cost control, very expensive
    - Eroding salesforce productivity

- Lender's
  - Strengths
    - Market leader, enjoying economies in marketing and production
    - Broker network and shelf space advantage
    - National/single source supplier capability in foodservice and in-store bakery segments
  - Weaknesses
    - Lack of premium retarded production capacity; is now building sufficient capacity
    - Must improve controls and business systems

- Dairy
  - Strengths
    - Top brand names in the industry, with leading shares
    - Only major direct sales force in the industry
    - Extensive productivity efforts have resulted in lower costs
  - Weaknesses
    - Frozen profits must continue to improve
    - Will need additional capacity to expand
    - Must continue with productivity program to hit profit objectives

- Birds Eye
  - Strengths
    - Leading share; trademark stands for superior quality
    - Sourcing leverage due to scale expertise, and flexibility
    - Consistent quality standards
  - Weaknesses
    - Higher delivery costs than competition due to poor distribution center network
    - Less raw material flexibility because of higher quality standards, affecting costs
    - Asset base/packaging lines are older with limited flexibility
    - Relatively low returns due largely to large inventory needs

2024255907

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

o Frozen Desserts

- Strengths
  - o Cool Whip leading brand with 61% share
  - o GF has largest variety of novelty items compared to competition, and leading brands with Jell-O, Kool-Aid, and Crystal Light

- Weaknesses
  - o Novelty profitability is low and uncertainty high
  - o Cool Whip price gap versus competition has widened

FINANCIAL OBJECTIVES AND STRATEGIC THRUSTS

All companies will contribute to dramatically improved financial performance via sales growth in core businesses and new products, cost controls, and the leveraging of fixed costs.

TOTAL FROZEN FOODS GROUP
(In MM)

	1988	1989	1991	1993	CAGR 88-93
Net Sales	$2,031	$2,238	$2,856	$3,169	9.3%
Available Profit %	36.7%	38.9%	40.1%	40.2%	3.5% pts.
O.I.	$ 134	$ 186	$ 281	$ 345	20.9%
ROMI	24.3%	28.4%	35.2%	41.0%	16.7% pts.

AAGC will be an important driver of Frozen Foods Group performance over the next five years. Net sales will more than double to $758MM, while operating income grows 176% to $69MM. New products will provide $370MM in sales by 1991. Gross profit improvement of 2% of sales will come from line efficiencies, waste reduction, and increased labor productivity. Advertising will triple to $55MM in 1993 to support the new products and base business. Capital expenditures of $70MM will be needed to support the sales growth, as will $32MM in additional working capital. ROMI will improve from 29% in 1988 to 40% in 1993.

AAGC strategies will continue to focus on strengthening the core business and aggressively pursuing new products. The core business will be strengthened through line refreshment, regionalized marketing, increased media spending, improved copy and strengthening of the broker network via increased broker staffing and/or additional brokers. In new products the company will aggressively pursue entries across multiple frozen meal occasions -- all based on AAGC's proven strategy of providing consumers quality, economical frozen foods. A new plant will be opened in 1990 to support this growth.

2024255908

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FPG STRATEGIC PLAN

Given the importance of meaningful price differentiation, emphasis will continue on maintenance of low costs through increases in efficiencies and line speeds, production staffing reductions, waste reduction, seasonal raw material purchasing, and careful headcount control in administration. Superior taste and quality will be maintained via periodic cuttings at the R&D facility, tasting and cuttings at each of the plants, additional quality assurance staffing, and continued new product formulation by proven internal and external product developers. Given the heavy reliance of the plan on new product success, a key challenge will be to manage introductory expenses for new products without creating a major negative impact on planned operating income. AAGC is continuing to explore alternatives in this area.

Tombstone's sales and profit growth will resume in 1989, after a tough year in 1988, and will continue to grow through 1993. Net sales will rise at a 10% annual rate, to $276MM in 1993 propelled by new products and varieties and geographic expansion. Gross profit will improve 3 percentage points due to tight cost controls, productivity improvements and utilization of current excess capacity. Reflecting the trade and competitive environment, deals will be up to 9.6% of sales in 1993 from 8.5% in 1988. Advertising will triple by 1993 from 1988's low level. Capital expenditures will be $8-9MM per year for maintenance, cost reduction and automotive replacements. No capacity additions will be needed. Tombstone's ROMI will improve from 28% in 1988 to 50% in 1993.

The strategic vision for Tombstone includes three primary elements generating profit growth:

1) Geographic expansion, eventually reaching total U.S. coverage
2) Product line expansion in premium and microwave products
3) Achieving low-cost producer position in quality frozen pizza

Each of these profit growth strategies requires an evolution of our current operating systems. Total U.S. coverage will require adaptations to our current Direct Store Delivery system to accommodate the problems of low CDI markets. Product line expansion and breakthroughs in quality will require new ingredients and packaging technologies. Finally, low cost producer status forces a complete review of the current approach to staffing and manufacturing systems.

On a product line basis, Italian thin crust pizza is being introduced to improve the competitive position of our profitable 12 inch lead products. Double Top is being relaunched at a better price/value to more effectively compete with takeout/delivery and the growing microwave segment will see additional varieties being added. Also, our product formulation and business systems will be improved in order to upgrade our price/value to better compete with takeout/delivery and other frozen competitors.

Lender's will deliver strong performance over the next five years behind continued volume growth, careful cost controls, and leveraging of fixed costs and scale

2024255909

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

economies. Expansion of Big 'N Crusty will add $19MM in gross sales by 1993, category growth will add $58MM, with pricing contributing $14MM. Gross margins will improve 2 percentage points by reducing costs from process and control improvements, shifting the mix to higher margin items, and selectively increasing prices. Advertising support will increase as sales grow, but will fall slightly as a percent of sales as we take advantage of scale economies. Trade allowances will also decline as a percent of sales. Management investment will rise $29MM due to capacity investment in a fifth bagel plant ($20MM) and maintenance and cost reduction projects. ROMI will improve from 26% in 1988 to 46% in 1993.

Lender's will aggressively grow its core retail frozen business by leveraging its broker/shelf space advantage, high share of voice advertising and consumer promotions, and expansion of its premium Big 'N Crusty product. Quality/service-oriented segments will be emphasized through targeted foodservice and in-store bake account programs, while price driven segments will be exited. The maintenance of consistent product quality and a 98% service level will be important elements of this strategy and improved systems will be utilized to achieve this level. Cost of goods and administrative costs will be controlled via utilization of a new standard cost system, use of a new premium product production process and location, and the implementation of new computer system. New capacity will be located to optimize the logistics network and drive down delivery costs and inventory levels. Capital investment will be minimized by gaining additional case capacity from current facilities while designing and building a less asset intensive new facility and by investigating baking synergies with Entenmann's.

The Dairy Group will see net sales of $1.2 billion in 1993, a 6% annual growth from the $912 million in 1988. Incremental revenue from low/no fat and low calorie products will be the significant driver of sales growth. Productivity will continue to be critical to the Dairy Group. Variable cost of sales will fall by 4 percentage points and operating income margins will rise to 9.1% of net sales in 1993, up from 3.7% in 1988. Total operating income will triple by 1993, to $110 million. Knudsen will contribute $21MM in OI in 1993, as its fixed costs are leveraged through volume gains. Investment in plant and equipment for cost savings and new products will total $167 million over the five years. This includes a new ice cream plant in 1991. The capital requirements raise management investment to $282 million in 1993 from $199 million in 1988; but, with income growing faster than investment, ROMI will improve from 18% to 39%.

Dairy Group strategies will focus on strengthening core businesses, the expansion of new low/no fat products, productivity and the development of competitively advantaged business systems. Core brands will continue to be supported by consumer focused marketing. The "All Natural" positioning on Breyers and the "Eat Smart" positioning on Light 'N Lively have worked well and will continue. In new products, the Dairy Group will be the innovator and leader in providing consumers with top quality lower fat and calorie alternatives to current dairy products. Full fat products will be only 57% of the frozen business in 1993, down from 88% in 1988.

2024255910

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FPG STRATEGIC PLAN

Productivity will remain a primary strategic focus with margins improvements resulting mainly from cost reduction efforts in manufacturing and distribution. Organizational capabilities will be improved and core skills will be upgraded in the areas of procurement, materials management, key accounts selling, forecasting, planning, product technology, and information management.

The Dairy Group is also aggressively pursuing significantly increased frozen profitability and a competitively advantaged position through the development of C.O.M.E.T. This is a fully integrated manufacturing, distribution, merchandising and communications system designed to control product quality, maximize SKU availability and increase overall channel profitability. The present frozen dessert system contains significant inefficiencies and generates added costs which have little, if any, consumer value. The full effect of C,O.M.E.T. has not been included into the Strategic Plan due to a number of issues that will be resolved in 1989.

Birds Eye's net sales will grow at an annual rate of 7% to $394 million in 1993, from $280 million in 1988. New products will account for $75 million of the sales growth, with the current value added vegetable business providing the remaining growth. Shipping, fixed manufacturing, and administration expenses will all decline as a percent of sales due to cost cutting efforts. The savings will be reinvested into media (to $9.5 million in 1993 from $5.7 million in 1988) and research and development. Operating income is planned to be $34 million in 1993, up from the 1988 level of $20 million. Capital spending will total $26 million and will be concentrated on cost reduction opportunities. ROMI will improve to 21% in 1993.

Birds Eye strategies will focus on continuing to build the core frozen produce business while introducing higher margin value added new products. The core business will be strengthened by supporting the brand through advertising, leveraging the quality and health benefits, while maintaining the price gap over private label. Package offerings and sizes will be upgraded to meet market needs and annual item/size refreshment will be utilized to stimulate retrial and usage and hold distribution. The value added businesses will be consolidated into five microwaveable lines - Deluxe, Classics, International, Custom Cuisine, and Farm Fresh. Cost reduction will be focused on raw material sourcing, distribution, systems and administrative overhead. Annual distribution savings of $10 million in 1993 are planned and further savings may be available through synergies with other frozen groups.

New product lines of high quality frozen products in convenient, functional packaging will focus on health, nutrition, younger families with children, fruit-based products, and hand-held microwaveable foods. Birds Eye For One will expand distribution in 1989. Other new development programs are Lite Ones - low calorie, low cholesterol and low sodium single serve side dishes that will enter test market in late 1989; Fruits - two lines (portion pack and deluxe) of value added frozen fruits, which will also enter test in late 1989; and pasta salads - microwaveable, defrostable cold side dish salads to be introduced into 19% of the U.S. in May 1989.

2024255911

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Frozen Desserts sales will grow to $324 million in 1993, a 7% annual growth rate from the $228 million in 1988. Core novelties volume is assumed to be flat, but price increases in 1989, 1991 and 1993 will add to sales. A new Cool Whip Lite line extension will contribute to toppings sales growth. Available profit margins will improve 5% points, to 55% of net sales, due to the pricing actions and improved cost effectiveness. Administration will also decline as a percent of sales. Operating income will grow from $23 million in 1988 to $45 million by 1993. ROMI on this business is excellent because of Cool Whip's profitability and will continue to improve, to 80% in 1993.

Novelties will convert to point-of-sale marketing from Brand marketing. Novelties tend to be an impulse purchase for the consumer as 70% are selected at the shelf. The presentation of the brands at retail will be a top priority, with promotion and advertising lesser priorities. Our products will be grouped into self-displaying brand clusters where each package and product completely presents the positioning of the brand.

Operationally, we have already reduced our novelty break even point by 3 million units to 3.7 million and will continue to reduce it by cutting fixed plant costs, eliminating write-offs with better inventory management, and reducing advertising. Plant efficiencies and yields will improve by changing to two shifts (from three) to allow for cleaning and repairs. These savings will result in a $3-7MM benefit annually. Overall, however, while significant progress has been made this business remains a marginally profitable, highly unpredictable business. We will be exploring various strategic alternatives in order to establish viable long term business.

The Cool Whip franchise can be built long term by more fully competing within the total Toppings category via line extensions in new forms and segments. Cool Whip Lite with half the fat of real whipped cream is being developed and will enter test market this year. The Extra Creamy Cool Whip relaunch in mid 1989 should allow us to better compete with La Creme. Tamper evident packaging will be rolled out to 10% of the U.S. this year with expansion in 1990.

Total KGF Frozen, as stated before, does not yet reflect synergies between the groups. However, we are confident that synergies will yield major cost savings and more effective business systems. Preliminarily, we see major opportunities in distribution, purchasing and research and development.

2024255912

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KGF FROZEN PRODUCTS
STRATEGIC PLAN

- CONSOLIDATED -

30-Mar-89

	1987	1988	1989P	1990	1991	1992	1993	CAGR 88-93
Net sales	1,896.1	2,030.6	2,237.5	2,505.7	2,856.1	3,026.3	3,169.3	9.3%
Variable Cost of Product sold	961.9	997.9	1,071.4	1,189.8	1,360.0	1,441.5	1,507.8	8.6%
Shipping expense	133.7	137.7	142.3	156.3	174.8	185.9	195.0	7.2%
LIFO adjustment	(9.1)	(0.2)	2.2	1.5	1.5	1.5	1.5	ERR
Cost of sales	1,086.5	1,135.4	1,215.9	1,347.6	1,536.3	1,628.9	1,704.3	8.5%
Marginal Contribution	809.6	895.2	1,021.6	1,158.1	1,319.8	1,397.4	1,465.0	10.4%
Fixed manufacturing costs	164.5	149.6	151.1	161.5	173.2	183.0	191.6	5.1%
Available profit	645.1	745.6	870.5	996.6	1,146.6	1,214.4	1,273.4	11.3%
Marketing	496.8	530.8	600.2	699.2	778.5	810.5	833.5	9.4%
General and Admin.	61.8	72.4	72.1	71.4	73.4	76.0	78.2	1.6%
R & D	13.9	11.2	14.0	14.2	15.1	18.7	18.2	10.2%
Curr. Trans./hedging costs	(0.3)	(0.1)	0.8	0.0	0.0	0.0	0.0	-100.0%
Other (inc)/exp	5.4	(2.5)	(2.5)	(2.0)	(1.7)	(1.7)	(1.6)	-8.5%
Total expense	577.6	611.8	684.6	782.8	865.3	903.5	928.3	8.7%
Income from OPs., before Interest,Goodwill & Assessments	67.5	133.8	185.9	213.8	281.3	310.9	345.1	20.9%

2024255913

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

12-Apr-89
03:28 PM

KRAFT GENERAL FOODS
GROUP: KGF FROZEN PRODUCTS
MANAGEMENT INVESTMENT

($ MM)

	1988	1989P	1990	1991	1992	1993
NET RECEIVABLES	116	117	127	144	153	161
NET INVENTORIES	195	219	230	256	267	277
PREPAID EXPENSES	4	5	4	4	5	5
NOTES PAYABLES	1	1	1	1	1	1
A/P & ACCRUED LIABILITIES	169	164	185	202	210	217
WORKING CAPITAL	145	176	175	201	214	225
NET PROP, PLANT & EQUIP	471	501	570	629	642	649
INV & ADV TO UNCONS SUBS	(4)	(1)	20	53	80	107
TOTAL Y/E MANAGEMENT INVESTMENT	612	676	765	883	936	981

11

2024255914

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

GROUP: KGF FROZEN PRODUCTS
CASH FLOW STATEMENT

($millions)

Source/(Use) of Funds	1988	1989	1990	1991	1992	1993
Income From Operations	$134	$186	$214	$281	$311	$345
Income Taxes	51	71	81	107	118	131
Net Income	83	115	133	174	193	214
Add: Net Corporate Assessments	0	0	0	0	0	0
Net Income Before Corporate Assessments	83	115	133	174	193	214
Amortization	0	0	0	0	0	0
Depreciation	26	34	32	50	37	41
Deferred Taxes	0	0	0	0	0	0
Change in Accounts Receivable	(4)	(1)	(10)	(17)	(9)	(8)
Change in Inventory	(8)	(24)	(11)	(26)	(11)	(10)
Change in A/P & Accrued Liabilities	19	(5)	21	17	8	7
Change in Income Taxes Payable	0	0	0	0	0	0
Other, net	38	(47)	(19)	(33)	(27)	(27)
Funds from Operations	154	72	146	165	191	217
Capital Expenditures	(63)	(64)	(101)	(109)	(50)	(48)
Other Invest & Acquis, net of Divest	0	0	0	0	0	0
Free Cash Flow	91	8	45	56	141	169
Long Term Debt Retired	0	0	0	0	0	0
Net Interest Expense(After Tax)						
Corporate Assessment(After Tax)						
Reduction of Untendered Kraft Stock						
Financing Provided	0	0	0	0	0	0
Change in Intercompany Account	$91	$8	$45	$56	$141	$169

2024255915

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KRAFT

U.S. Commercial Products

NOTE

Discussion and analysis of competitors is based on public information and internal modeling of competition developed by the Planning Department. Projections and discussions of future actions by competitors are primarily based on extension of historical trends within the context of U.S. Commercial Products' forecasted food industry environment.

U.S. COMMERCIAL PRODUCTS
2024255916

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KGF COMMERCIAL PRODUCTS STRATEGIC PLAN

OVERVIEW

Kraft General Foods Commercial Products is comprised of two operating units: Kraft Foodservice and Kraft Food Ingredients.

Kraft Foodservice markets and distributes Kraft Manufactured and outside procured products to the foodservice market. Kraft Food Ingredients manufactures and markets specialty ingredients and edible oil products to the food processor, foodservice and retail markets.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS
($ MILLIONS)

	1983	1988	1993	CAGR 1983 - 88	CAGR 1988 - 93
UNIT VOLUME - LB	1,803	4,809	6,271	21.7%	5.5%
SALES	$1,162	$3,592	$5,420	25.3%	8.6%
OPERATING INCOME	57	103	291	12.5%	23.1%
ROMI - %	25.6%	17.1%	34.8%	(8.5) PTS	17.7 PTS

Financial performance from 1983 to 1988 reflects the emphasis on growing the business through acquisitions. Future financial performance represents the strategic priority to increase profitability while out pacing industry growth.

2024255917

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

INDUSTRY OVERVIEW - MARKET TRENDS

The structure of the foodservice industry (or food away from home market) consists of suppliers, who manufacture food products; distributors, who distribute these products; and operators, who sell the products to the consumer. Kraft Foodservice (KFS) is Kraft's principal vehicle for participating in this industry. While KFS operates both as a supplier and distributor, its primary role is as a marketer and distributor of both Kraft Manufactured products and products from other manufacturers.

Size and Growth

The foodservice industry is a $215 billion market in operator sales. The market is comprised of many different segments each with their own particular characteristics.

FOODSERVICE OPERATOR SALES

COMMERCIAL			NON-COMMERCIAL		
SEGMENT	SALES	CAGR 1982-87	SEGMENT	SALES	CAGR 1982-87
Restaurants	$ 61.3 B	3.0%	Education	$18.7 B	0.8%
Fast Food	55.4	3.2	In-Plant/Office	14.0	2.7
Retail Hosts	12.1	3.5	Healthcare	13.7	(2.8)
Lodging	6.8	(1.8)	Vending	13.2	1.7
Recreation	6.2	2.3	Airlines	3.3	5.5
Other	5.0	1.9	Other	5.4	0.7
Total	$146.8 B	3.0%		$67.7 B	0.6%

SOURCE: Technomics, 1987 Operator Sales

Growth of the foodservice market has fluctuated from year to year, averaging 2 - 3% real annual growth for the past 10 years. This growth rate has out paced the food at home market resulting in foodservice growing its share of total food expenditures from 45% in 1978 to 49% today. Future annual growth in the foodservice market is projected to be 1.5 - 2% over the next five years.

Key Operator Trends

Four key trends have been occurring at the operator level.

1. Operators continue to consolidate as the top 100 restaurant companies now control 50% of all restaurant sales, up from 42% just 5 years ago.

2. Operators continue to pursue differentiation strategies resulting in the growth of mid-size theme chains such as Houlihan's, Bennigan's and El Torito.

3. Manufacturers are experiencing increased pressure on their margin structure. Chain operators are buying more product under their own label and sophisticated buyers are unwilling to pay brand premiums.

4. The continual decline in the population of 18 - 24 year olds has caused a major labor shortage for operators, creating an increasing need for labor saving products and services.

2024255918

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

INDUSTRY OVERVIEW - FOODSERVICE DISTRIBUTION

The foodservice industry at the wholesale or distribution level is a $90 billion industry. The industry is comprised of over 4,000 distributors, with the top 4 distributors having less than 15% share of the total market.

There are two primary dimensions by which distributors compete within the foodservice distribution industry. One dimension is to achieve relative size within a particular customer category, product category or geographic market. The second dimension by which they compete is along geographic coverage, focusing on a local market or providing multimarket coverage. As a result of these approaches, the industry is a fragmented and highly segmented competitive environment. The matrix below categorizes the players in the market along these two dimensions.

FOODSERVICE DISTRIBUTION INDUSTRY STRUCTURE

Companies Focusing on Relative Size in:

Customer Category

Product Category

Geographic Market

	...On a Local Basis	...On a Multimarket Basis
	Small segment specialist . Ethnic . Meat/seafood . Produce . Frozen . Equipment	Custom distributors* . Martin Brower . Collins . Golden State
		Multilocation specialists* . Edward Don
	Local independent broadline houses* . Gordon . FSA . White Swan	National broadliners** . Sysco . Kraft . PYA . Rykoff-Sexton

* Only a representative few in each of these categories
** Each have a mix of broadline and specialty positions on a local basis

Small Segment Specialists - Approximately 80 to 90% of the 4,000 distributors are in this category. They have experienced no real sales growth over the last three years due to their inability to provide the expanded product and geographic needs of the growing operators. However, this segment still represents $52 billion in sales or 58% share of the market.

Local Independent Broadline Houses - Sales have declined 2% per year for the last 3 years, primarily as a result of being acquired by the national broadliners. This segment represents $10 billion in sales and 11% market share.

Custom Distributors - Their 5% per year sales growth has been driven by growth in their major customer base, the national and regional chains. Custom distributors now represent $12 billion in sales and control 13% share of the market.

2024255919

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Multilocation Specialists - These distributors have also grown along with the chains and have achieved a 5% annual growth over the last three years. They now account for $3 billion and a 3% share of the market.

National Broadliners - Their 13% annual growth leads the industry. They represent $13 billion in sales and a 15% share of the market, up from less than 8% just 5 years ago. This growth has come both internally and from acquisitions. Internally they have grown 6 to 8% annually, driven by expanded product lines, increased geographic coverage and the ability to serve regional and national operator chains. Their market share gains have come primarily at the expense of smaller local broadline houses. On the acquisition side, two major mergers have occurred in the last five years. Rykoff purchased Sexton in 1984 and Sysco acquired CFS in 1988. There has also been an ongoing stream of smaller acquisitions (primarily local broadliners and segment specialists) by the national broadliners.

Key Industry Success Factors

There are four key success factors for competing in the foodservice distribution industry.

1. Account by account relationship management - Distributors establish relationships with their customer accounts. These relationships are driven by an operator's desire for tailored services and to consolidate purchasing with a few distributors. In addition, distributors provide assistance to operators in managing back room operations. Distributors also create franchises around the unique product and service positions they provide. This results in a wide variety of account profitability. Building strong relationships with the operators can become barriers to competition and earn attractive returns for the distributor.

2. Local relative size versus competitors selling to the same segment - High relative share within a segment creates profit opportunity for distributors through enhanced price realization and lower costs. Increasing share in product categories reduces cost of product, freight cost, handling costs and inventory investment and allows the distributor to create a product franchise. Increasing the share of a customer reduces delivery cost and sales cost. Increasing geographic density reduces delivery cost.

3. National buying and marketing leverage - National distributors have the ability to exercise enormous procurement leverage. Their large volume allows them to achieve purchase allowances which can represent 1 to 2% of sales. The bundling of volume creates the opportunity to develop distributor branding opportunities. Multimarket positions of national distributors allows them to share information across markets and provides arbitrage opportunities. Also, investments to understand market trends, import capabilities, forward buy options, etc. can be amortized across multiple markets. Likewise, marketing programs can be leveraged across many markets allowing distributors to create franchises around high share positions.

4. Effective operations - The above success factors must be supplemented by effective local execution. Distribution operations are inherently local and competitive positions vary from market to market. In addition, local managers must deal with the complexity in managing product, customer and geographic portfolios. Maintaining cost discipline is critical given that local competitors off-set scale advantage with no or little overhead.

2024255920

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PEKR GROUP ANALYSIS

	1987			REAL CAGR 1982-87	
	MARKET SHARE	ROS	ROMI	SALES (%)	OI (%)
Sysco	4.5	3.2	22.4	12.6	13.9
Kraft	3.1	3.0	22.9	28.1	21.1
PYA/Monarch	2.8	2.8	18.9	10.0	4.2
CFS	2.6	2.0	11.0	14.7	8.2
Rykoff-Sexton	1.5	2.6	12.7	22.6	12.0

Kraft Foodservice considers its peer group to be the national broadline distributors. While these competitors employ different strategies, they all compete on a multimarket basis and have a mix of broadline and specialty positions in local markets.

Sysco (Pre-CFS)
Sysco employs a decentralized autonomous operating philosophy in which local operations often compete with each other in overlap markets. They carry a broadline of products and promote "one stop shopping" to operators. Their acquisition strategy has primarily been "fold-ins" (with the exception of its recent acquisition of CFS). They have had difficulty in centralizing some of the key national opportunities in procurement and marketing. Core strengths include the Sysco distributor brand, the South Central and Mountain geographic markets and strong customer positions in the healthcare and hotel/motel segments.

CFS (Pre-Sysco)
CFS pursues a centralized operating philosophy. They have placed a heavy emphasis on growing the chain operator segment and are attempting to broaden their product line beyond their strength in coffee. Geographically, they have strong market positions on the West Coast and in the Pacific Northwest.

Sysco/CFS
In mid-1988 Sysco acquired CFS. The focus for the next two years will be on integrating two diverse companies. The combined company has $6 billion in annual sales and a 7% market share.

PYA/Monarch
PYA/Monarch, a division of Sara Lee Corporation, pursues a regional share strategy. They primarily compete only in markets where they have a #1 or strong #2 market share, and have divested operations in most other markets. This strategy has resulted in a strong competitive position in the Southeast region, but few elsewhere. They have acquired a number of local broadline distributors which has strengthened their Southeast position. PYA/Monarch is in the process of moving from a decentralized to a centralized operating philosophy.

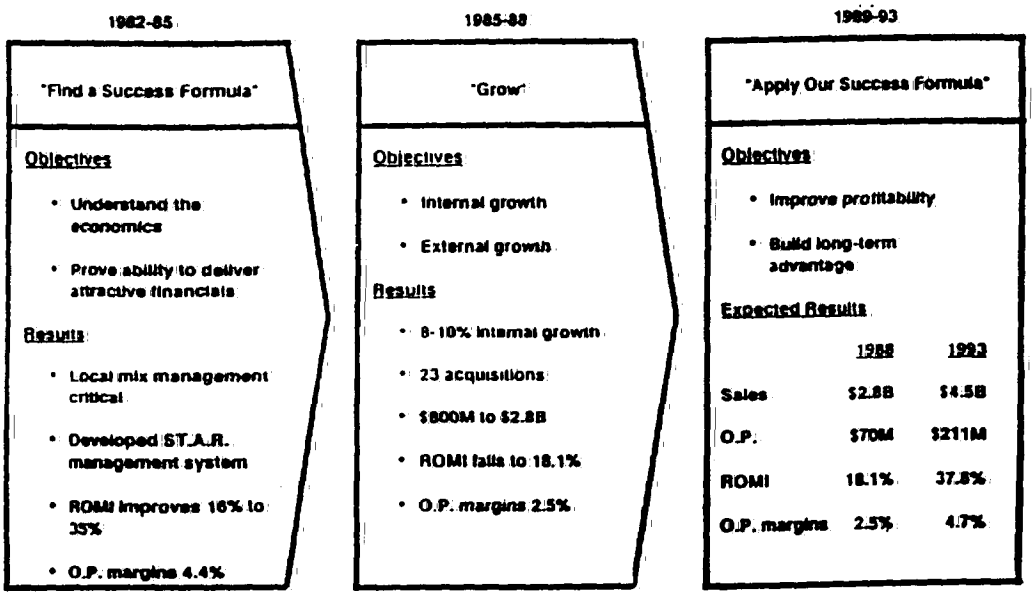
Rykoff-Sexton
Rykoff-Sexton's strategy is to build a leadership position in the supply and equipment product category. They have a stated objective of attaining 50% of their sales in non-food categories. Although national, 60% of their sales is on the West Coast. They are facing increasing pressure to improve margin, which has been difficult since the merger of Rykoff and Sexton in 1984.

2024255921

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

STRATEGIC SUMMARY

BUSINESS DEVELOPMENT SUMMARY



The development of Kraft Foodservice has involved three distinct phases.

1982 to 1985: "Find a Success Formula"

Kraft Foodservice invested in a district assessment process to determine the underlying economics of the industry. Effectively managing the local mix of product and customer portfolios and the ability to leverage purchasing power were identified as key to overall profitability. The Star Management Reporting System was developed to help each district track its product and customer profitability. Focusing on these principles, KFS' return on management investment increased from 16% to 35%, while operating margins rose to 4.4%.

The success achieved during this time period demonstrated four reasons to view foodservice as an attractive investment for Kraft.

1. The high profit achieved in many districts proved that the industry had attractive profit potential. This was supported by the high shareholder value Sysco, CFS and Rykoff were experiencing in the marketplace.
2. Continued consolidation within the industry would provide an ongoing growth opportunity to increase market share.
3. KFS identified the potential to "change the rules of the game" by combining an integrated national coverage with a blend of high relative share positions in local portfolios.
4. The foodservice distribution network was also viewed as a potential store door vehicle for adding value to the retail business.

2024255922

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

1985 to 1988: "Grow the Network"

The strategic focus was on rapidly growing the network to achieve national coverage and attain a critical size to optimize leverage opportunities. Twenty-three companies were acquired, primarily to fill geographic gaps and increase penetration in many key markets. The acquisitions also helped transition KFS from a specialty distributor, primarily selling Kraft Manufactured products, to a broadline distributor. However, the growth also raised short term control issues caused by gaps in information systems, pricing systems, procurement systems and management capabilities. Financial performance declined as planned, with return on sales falling from 4.4% to 2.5% and ROMI from 35.0% to 18.1%. However, long term expectations were raised with the 1993 plan return on sales projected at 4.7% and ROMI at 37.6%.

1989 to 1993: "Apply our Success Formula"

The Kraft Foodservice's current strategic focus is on applying the success formula to improve the profitability of the existing network and to build long term advantage.

CURRENT STRATEGIES

The Kraft Foodservice mission is to be the leading supply and distribution company in the foodservice industry by achieving superior results versus competition as measured by: people, products/services, business plans and execution, ROMI, rate of volume and operating profit growth, productivity and innovation.

Current Situation

KFS enters 1989 as the #2 Foodservice Distributor with a 3.1% market share ($2.8 billion in 1988 sales). Major strengths include the high profit potential of the Kraft trademark, national distribution coverage, a proven success formula in mix management being implemented and an information plan in progress. Major weaknesses are lack of management information, control issues in a few markets, and underperforming acquisitions resulting from unmanaged product and customer portfolios.

Strategies

1. Manage product mix - The current product portfolio is a mix of winners and losers. Focus will be to build share in winners and either improve or prune the losers.

2. Manage customer mix - The current customer portfolio is also a mix of winners and losers. Focus will be to manage the customer mix to build share in winners and improve or prune the losers.

3. Improve margins - Pricing and procurement opportunities are under exploited relative to potential with centralized information and control systems.

4. Raise productivity - While part of a broader Kraft program, productivity is complementary to KFS' on going need for effective operations. Productivity improvement opportunities are substantial in acquired business units.

5. Maintain growth posture - Building relative share will require KFS to continue to out pace industry averages.

2024255923

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KEY PROGRAMS

Six key programs are being implemented to successfully execute the strategies.

Program 1: Star Management Reporting

The acquisition of 23 independent companies with 23 incompatible computer systems made it impossible to provide the acquired business units with information to effectively manage their product and customer portfolios. Therefore, KFS began developing a common information base (Star Management Reporting) of product coding, vendor coding, business categorization and profitability that would provide the information needed to effectively manage the mix in acquired companies.

Star Management Reporting identifies profitability by activity for components of the business portfolio (products, customers and geographic segments). This information helps district management set priorities for selling and service activities in order to focus growth for maximum profitability.

Program 2: District assessment process

There is a wide range of profitability among the various districts. While the original base districts are very profitable most of the acquired districts are in the early stages of improving profitability. The district assessment process is a way of dissecting the business to determine where and how the district makes money. Using the information from the Star Management Reporting system districts can develop action plans for their specific situation in order to improve financial results.

Program 3: Sandra 90

Sandra 90 is a standardized information system which will provide effective controls to manage the business by integrating all operating systems. Sandra 90 will allow KFS to maximize procurement leverage, improve warehouse and delivery efficiencies and institutionalize the Star Management Systems. In addition, Sandra 90 will help restructure business operations by consolidating district and headquarter systems and redundant district support functions. This restructuring is possible because at every district support supervision and management is replicated, clerical staff is sized for peak local requirements and the support functions are larger than necessary due to lack of productive on line support systems. Sandra 90 will also give KFS the capability to provide value added service opportunities like inventory reservation, menu planning, etc.

Program 4: Margin improvement program

To raise gross margin KFS is focusing on improving price realization and reducing product cost. Major actions to improve price realization include capturing procurement allowances at headquarters, training local operations whose sales marketing techniques have been cost not price driven and "freezing down and floating up" as pricing changes. In addition, KFS will continue to build and capture the value of local relationships, promote the Kraft brand franchise and re-evaluate the cost plus business in the acquired companies. Post Sandra 90 KFS will be able to exercise more centralized control on pricing decisions.

To reduce product cost KFS will continue to consolidate volume behind low cost vendors and re-evaluate product formulations in order to reduce material costs.

2024255924

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Program 5: KPP Program

Kraft Foodservice has launched a division wide productivity program that focuses on improving productivity both at a local level and national level. Locally, the program encourages broad employee involvement to make individual jobs and tasks more productive. Local programs include implementing engineered labor standards and improving service levels to reduce the cost of errors and outages. At the national level KFS will continue to identify restructuring opportunities across the business system in order to consolidate redundant activities.

Program 6: Marketing programs

Future growth will be driven by key marketing programs in supermarket deli, Kraft Manufactured, Kraft Foodservice Distributor brand and local district programs. KFS has developed a national marketing sales organization to penetrate the supermarket deli segment. This segment is one of the fastest growing in the industry and is a major user of product categories manufactured by Kraft (e.g., cheeses, salad dressings). Programs to market Kraft Manufactured products will focus on improving local selling skills and effectively managing pricing positions with the product lines. The number of products under the Kraft Foodservice distributor brand continues to grow as acquisitions convert over to this brand. The distributor brand offers a major opportunity to leverage purchasing scale into creating a brand position in categories KFS does not manufacture. In addition to these national programs each individual district is developing local programs to address key segments in their marketplace.

A future opportunity for Kraft Foodservice is the joint venture being pursued in the healthcare segment with Baxter International. KFS is currently in the negotiating stage of the joint venture which will link Baxter's marketing and sales strength with major hospital chains to our distribution capabilities. The current Strategic Plan does not include the financial implications of this potential joint venture.

2024255925

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FINANCIAL IMPLICATIONS

FINANCIAL HIGHLIGHTS
($ MILLIONS)

	1983	1988	1993	CAGR 1983 - 88	CAGR 1988 - 93
Sales	$ 686	$2,844	$4,464	32.9%	9.4%
Operating Income - $	30	70	211	18.5%	24.7%
Operating Margin - %	4.4	2.5	4.7	(1.9) PTS	+ 2.2 PTS
ROMI - %	30.5	18.1	37.6	(12.4) PTS	+19.4 PTS

KFS' financial performance from 1983 to 1988 reflects the investment in rapidly growing the distribution network. The 23 acquisitions led to the quadrupling of sales but diluted operating margin and return. Successful execution of the Strategic Plan will improve profitability while still out pacing the industry in sales growth.

Sales Growth (contributes $24MM of OI increase during plan period)
Real annual sales growth of 5 to 6% will be 2.5 to 3 times the rate of industry growth. The growth will be driven by the execution of KFS' national and local marketing programs. The impact of future acquisitions is not included in the Strategic Plan financials. However, KFS will remain poised for acquisitions which will provide significant strategic and financial benefits.

Gross Margin (contributes $44MM of OI increase during plan period)
Gross margin is projected to improve from 17.9% (1988) to 18.9% (1993). Product cost reduction and price realization programs will drive the improvement.

Operating Expense (contributes $57MM of OI increase during plan period)
Effective implementation of Sandra 90 and KFS' productivity program will help reduce operating expenses from 15.4% of sales (1988) to 14.2% (1993). Sandra 90's integrative operating systems will centralize many support functions, resulting in the elimination of redundant support staffs in districts.

Management Investment
Total asset turnover will increase from 6.9 turns in 1988 to 7.6 turns in 1993. The increase in turns will be driven by significant improvement in working capital. Future capital investments will be focused primarily on building new/expanding existing distribution centers to support growth opportunities and on computer systems (Sandra 90 Program).

PLAN ASSESSMENT

Although the Strategic Plan has very aggressive profit goals, there is an extremely high level of confidence that it can be achieved. Success is not tied to a "high risk still undeveloped" new product or process. Rather, success depends on executing a strategy which has already been proven to yield successful results, as evidenced by KFS improving ROMI to 35% and operating margin to 4.4% in 1985. With known and proven strategies in place and action plans underway, Kraft Foodservice is confident it can achieve its Strategic Plan.

2024255926

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

OVERVIEW - KRAFT FOOD INGREDIENTS

Kraft Food Ingredient's (KFI) business is divided into two segments: Specialty Ingredients and Oil Products. Specialty Ingredients provides refrigerated, confection and spray dried products to food processors and represents 15% of KFI sales and 40% of KFI operating income. Oil Products provides a full line of edible oils to food processors, foodservice and private label retail customers and represents 85% of KFI sales and 60% of KFI operating income.

MISSION

The KFI mission is to become the leading and preferred U.S. supplier of specialty ingredients and edible oil products to the Food Processor, Foodservice and Private Label Retail markets. The emphasis will be on adding value by providing customers with superior quality, superior service, and innovation at a fair price. In carrying out this mission KFI will create a positive work environment for its employees.

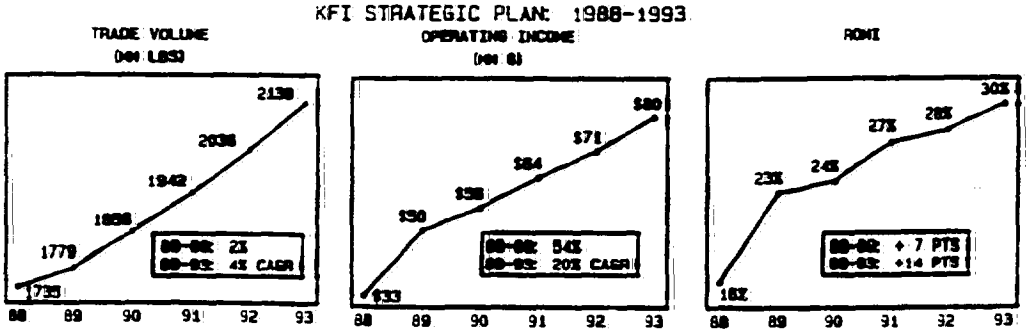
KEY ISSUES

KFI faces two key strategic issues during the plan period: 1) How to accelerate the growth of the profitable Specialty Ingredients business, and 2) How to improve the profitability of Oil Products in a flat, competitive market.

OBJECTIVES

KFI plan objectives are based on a balance of increased operating income growth and improved returns.

KFI STRATEGIC PLAN: 1988-1993



PLANS

Plans are based on accelerating the growth of Specialty Ingredients and improving the profitability of Oil Products. Specialty Ingredients will contribute 45% of the operating income increase during the plan period ($21MM), primarily through accelerated volume growth in core businesses (17% CAGR). Oil Products will contribute 55% of the operating income increase during the plan period ($26MM), primarily through productivity ($16MM net) and a continued shift toward higher value added products ($10MM).

2024255927

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

SITUATION - SPECIALTY INGREDIENTS

The outlook for Specialty Ingredients during the plan period is very positive:

Historical Performance - Between 1983 and 1988, Specialty Ingredients operating income grew at a 14% CAGR. However, growth has slowed since 1986 in all product areas except cream cheese. ROMI has increased to 42%, benefiting from a shared investment base with Kraft.

Markets - Market demand for refrigerated products and spray dried products will be very strong. Confections sales will continue to be greatly affected by the marketing and promotional activities of General Mills, our largest confections customer.

Competition - KFI has a leading share in cream cheese and certain confection products. KFI shares in spray dried and refrigerated products are low, although competition is believed to be vulnerable.

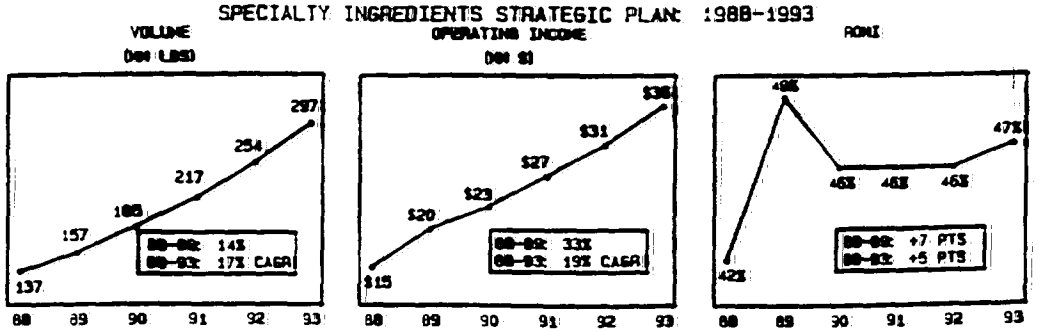
Internal - The reorganization of the Specialty Ingredients group in early 1989 should improve sales and marketing capabilities. Additions to KFI technical services in late 1988 should also strengthen product development capabilities. The relationship with General Foods may provide opportunities for the addition of new products.

KEY ISSUE

The key issue facing Specialty Ingredients is how to accelerate sales and income growth beyond historical levels.

OBJECTIVES

Plan objectives are focused on accelerating operating income growth primarily through strong volume increases in profitable core businesses:



2024255928

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

SPECIALTY INGREDIENTS PLANS

1. Implement "cheese leadership" plan (41% of income growth).

Refrigerated Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	74	86	17%	155	16%
Marg. Inc. (MM$)	$14.0	$16.2	16%	$26.8	14%
Marg. Inc./LB (cents)	19.0	18.9	(1%)	17.3	(2%)

- Reduce cost of natural/process cheeses sourced from Kraft by 4 cents per lb. (effective 1-89).
- Mobilize technical efforts.
- Penetrate new accounts.

2. Develop confection line extensions and technology (18% of income growth).

Confections Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	35	39	10%	50	7%
Marg. Inc. (MM$)	$ 9.8	$11.6	18%	$15.2	9%
Marg. Inc./LB (cents)	27.9	30.1	8%	30.3	2%

- Develop marshmallow bit line extensions.
- Expand marshmallow bit technology to applications and new accounts.
- Expand value added caramel sales.

3. Build spray dried capabilities (22% of income growth).

Spray Dried Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	13	15	17%	35	22%
Marg. Inc. (MM$)	$ 4.1	$ 4.6	11%	$10.8	22%
Marg. Inc./LB (cents)	31.9	30.1	(6%)	31.1	-

- Increase product approvals through strengthened technical service.
- Develop a diversified line of standardized products.
- Expand spray dying capacity in 1990.

4. Expand through alliance and acquisition (19% of income growth).

New Products Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	15	17	11%	57	30%
Marg. Inc. (MM$)	$ 2.0	$ 2.5	29%	$ 7.8	32%
Marg. Inc. (cents)	12.6	14.7	17%	13.7	2%

- Expand sales of Kraft sourced products outside KFI core (vanilla, margarine, sauces, milk alternates, Dairy Group).
- Explore opportunities to sell products sourced from General Foods.
- Develop distribution system for less-than-truckload shipments.
- Consider alliance/acquisition of flavor and/or seasonings supplier.

2024255929

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KGF COMMERCIAL PRODUCTS STRATEGIC PLAN
KRAFT FOOD INGREDIENTS - OIL PRODUCTS

SITUATION - OIL PRODUCTS

The outlook for Oil Products during the plan period is positive:

Historical Performance - Oil Products volume and operating income improvements resulted from the acquisition of Anderson Clayton in 1987. Earnings volatility should be minimized in future years as a result of a switch to LIFO inventory accounting in 1988. Oil ROMI has been reduced to 10% as a result of the Anderson Clayton acquisition in 1987 and a change in intercompany transfer pricing.

Markets - Demand for oil products is expected to flatten as consumers reduce their fat consumption. A shift toward oil products with lower saturated fats is also anticipated.

Competition - KFI has strong share positions in all oil industry segments: 17% of total oil industry (#1); 18% of food processor (#1); 70% of private label retail (#1); 11% of foodservice (#2). Foreign entrants into the oil industry through acquisition may strengthen competitors.

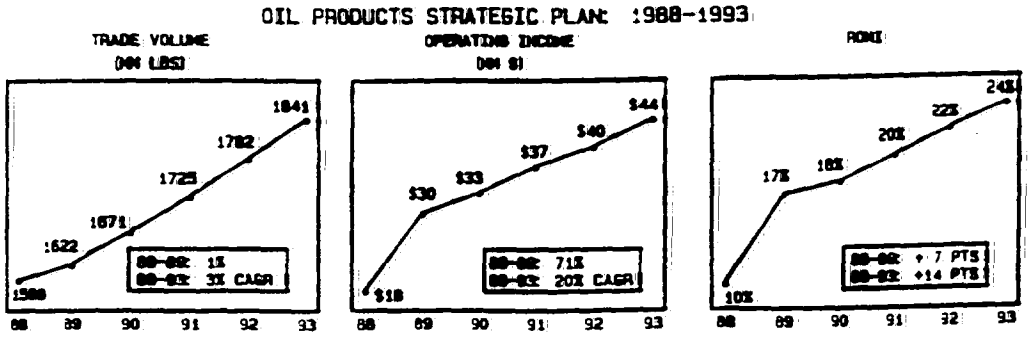
Internal - The reorganization of Oil Products in early 1989 should strengthen capabilities. Implementation of the productivity program in 1987 and 1988 will yield significant benefits in 1989 ($14MM).

KEY ISSUE

The key issue facing Oil Products is how to improve profitability in a flat, competitive market.

OBJECTIVES

Plan objectives are based on sharp improvements in returns and operating income resulting from an aggressive productivity program (65% of income growth) and a continued shift toward higher value added products (35% of income growth).



2024255930

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

OIL PRODUCTS PLANS

1. Continue aggressive productivity program ($26MM gross savings; $16MM net).

   - Reduce cost by $14MM in 1989.
   - Reduce headcount by 17% (from 2261 on 7/87 to 1869 on 6/89).
   - Improve oil products working capital turns from 13.6 in 1988 to 16.5 in 1991.
   - Reduce costs by an additional $12MM in 1990 - 1993.

2. Improve quality and service.

   - Improve service levels to 95% complete-and-on-time in 1989 (vs. 92% in 1988).
   - Reduce quality deviations by 20% in 1989.
   - Implement Statistical Process Control in 1989.

3. Shift Food Processor mix toward higher value added products.

Food Processor Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	896	879	(2%)	987	2%
Marg. Inc. (MM$)	$25.2	$26.2	4%	$32.8	5%
Marg. Inc./LB (cents)	2.8	3.0	7%	3.3	3%

   - Increase unit margins on tank products.
   - Expand higher margin packaged and specialty products.
   - Pursue KFI sale of Kraft fat substitute.

4. Develop new private label products.

Private Label Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	411	423	3%	456	2%
Marg. Inc. (MM$)	$26.2	$27.1	3%	$33.3	5%
Marg. Inc./LB (cents)	6.4	6.4	-	7.3	3%

   - Introduce new products/line extensions.
   - Expand distribution of confections and cheese analogs.
   - Defend private label shortening and oil shares.

5. Expand Foodservice sales to national accounts.

Foodservice Strategic Plan

	1988	1989	1988 - 89	1993	CAGR 1988 - 93
Volume (MM Lbs.)	291	320	10%	398	6%
Marg. Inc. (MM$)	$12.8	$14.4	12%	$19.8	9%
Marg. Inc./LB (cents)	4.4	4.5	2%	5.0	3%

   - Grow national account volume.
   - Grow cheese analog and creamer volume.
   - Defend/rebuild distribution business.

2024255931

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KGF COMMERCIAL PRODUCTS
30-Mar-89
09:31:45 AM

INCOME STATEMENT

	1988	1989P	1990	1991	1992	1993
Volume	4,809	5,161	5,364	5,604	5,936	6,271
Net sales	$3,592	$3,982	$4,192	$4,527	$4,964	$5,420
Operating revenues	3,592	3,982	4,192	4,527	4,964	5,420
Var Cost of Product sold	2,957	3,215	3,399	3,662	4,008	4,373
Shipping expense	304	351	349	369	393	431
LIFO adjustment	0	0	0	0	0	0
Cost of sales	3,260	3,566	3,747	4,032	4,402	4,804
Marginal Contribution	332	416	445	495	563	616
Fixed manufacturing costs	27	32	29	30	31	32
Available profit	304	383	415	465	532	584
Marketing	155	165	177	192	211	232
General and Admin.	55	74	77	77	77	80
R & D	4	5	5	5	6	6
Curr. Trans./hedging costs	0	0	0	0	0	0
Other (inc)/exp	(12)	(18)	(19)	(21)	(23)	(25)
Total expense	201	226	240	254	271	293
Income from OPs., before Int., Goodwill & Assess.	103	158	175	212	261	291

2024255932

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

12-Apr-89
03:28 PM

KRAFT GENERAL FOODS
GROUP: KGF COMMERCIAL PRODUCTS
MANAGEMENT INVESTMENT

($ MM)

	1988	1989P	1990	1991	1992	1993
NET RECEIVABLES	252	267	275	292	320	350
NET INVENTORIES	292	279	291	290	309	336
PREPAID EXPENSES	3	3	5	5	5	5
NOTES PAYABLES	0	0	0	0	0	0
A/P & ACCRUED LIABILITIES	209	241	265	291	317	345
WORKING CAPITAL	338	308	306	296	317	346
NET PROP, PLANT & EQUIP	284	343	397	443	482	518
INV & ADV TO UNCONS SUBS	0	0	0	0	0	0
TOTAL Y/E MANAGEMENT INVESTMENT	622	651	703	739	799	864

17

2024255933

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

GROUP: KGF COMMERCIAL
CASH FLOW STATEMENT

($millions)

Source/(Use) of Funds	1988	1989	1990	1991	1992	1993
Income From Operations	$103	$158	$175	$212	$261	$291
Income Taxes	39	60	67	80	99	111
Net Income	64	98	109	131	162	180
Add: Net Corporate Assessments	0	0	0	0	0	0
Net Income Before Corporate Assessments	64	98	109	131	162	180
Amortization	0	0	0	0	0	0
Depreciation	20	22	23	26	33	36
Deferred Taxes	0	0	0	0	0	0
Change in Accounts Receivable	(12)	(15)	(8)	(17)	(28)	(30)
Change in Inventory	(23)	13	(12)	1	(19)	(27)
Change in A/P & Accrued Liabilities	18	32	24	26	26	28
Change in Income Taxes Payable	0	0	0	0	0	0
Other, net	2	(2)	(5)	0	0	0
Funds from Operations	68	148	131	167	174	188
Capital Expenditures	(51)	(65)	(78)	(71)	(72)	(72)
Other Invest & Acquis, net of Divest	(8)	(15)	0	0	0	0
Free Cash Flow	9	67	53	96	102	115
Long Term Debt Retired	0	0	0	0	0	0
Net Interest Expense(After Tax)						
Corporate Assessment(After Tax)						
Reduction of Untendered Kraft Stock						
Financing Provided	0	0	0	0	0	0
Change in Intercompany Account	$9	$67	$53	$96	$102	$115

2024255934

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

2024255935

KRAFT

Kraft Fat Replacement

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FAT REPLACEMENT PROGRAM

1989 STRATEGIC PLAN SUMMARY

OVERVIEW

The Kraft General Foods Fat Replacement Program, outlined in this 1989 Strategic Plan Summary, reflects the firm belief that the application of new fat replacement technologies will represent major consumer news with disproportionate importance to KGF. In fact, these new technologies will allow many KGF businesses to deal fundamentally with their key environmental threat, that being their high-fat/cholesterol content. It is an aggressive program that represents both an offensive opportunity and a defensive necessity.

This Plan summarizes the fat replacement activities occurring across the KGF Operating Groups. It is based on two key objectives: (1) Lead the marketplace in leveraging the application of fat replacement technologies in existing and potential new KGF businesses and (2) Develop internal fat replacement technologies that can provide competitive advantage for KGF. These initiatives are forecasted to deliver in 1993, 225-300 million lbs. in incremental tonnage, $250-350 million in incremental sales and $30-40 million in incremental profits.

The Fat Replacement Program is still in the early development stage, having been initiated just over one year ago. Many issues regarding product development, capital needs and final marketplace application are being resolved over the next six months. Timing to test market for the first fat replacement products is targeted for late 1989 with national expansion in 1990.

SITUATION ASSESSMENT

KGF's interest in fat replacement technologies is based on an assessment of changing consumer needs, aggressive competitive activity, and the opportunity to achieve competitive advantage.

1. Increased consumer concern over health has created demand for lower fat/cholesterol products.

   There has been a dramatic increase in publicity about the role that fat and cholesterol play in the diet. Various health agencies have targeted fat reduction as the number one health priority because of fat's linkage to cardiovascular disease. Recent studies indicate that fat has become the top ingredient concern in food for consumers, followed by sodium and cholesterol. Importantly, these attitudinal shifts are translating into changing consumer behavior. There has been slower or no growth in high fat categories and new low fat/low calorie products are expanding rapidly, achieving 20-30% their category volume.

2024255936

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

SITUATION ASSESSMENT (Cont'd)

2. New fat replacement technologies will allow the introduction of good tasting, low fat/cholesterol products, even fat/cholesterol free products.

Multiple fat replacement technologies are expected to be available in the next few years. These technologies deliver rich, creamy texture in the finished product without all of the fat, cholesterol and calories. Importantly, KGF has developed its own fat replacement technologies that could provide competitive advantage, in terms of product quality and cost.

COMPANY	TECHNOLOGY	APPLICATION	EXPECTED FDA APPROVAL
Procter & Gamble	Olestra • Synthetic • Sucrose Polyester	Focused on frying oils/ fried snacks	Food Additive 1990-91
NutraSweet	Simplesse • Natural • Protein-based	Non-heated fat-containing foods	GRAS approval 1989-90
KGF	Trailblazer • TBII-Protein/ gum; natural • TBA-Cellulose/ gum; qualified natural	All fat-containing foods except fryable	GRAS approval 1989-90 for TBII; TBA already used in other forms.

3. Fat replacement technologies represent exciting consumer news but taste delivery skepticism and safety concerns must be addressed.

Research has shown high consumer interest in the application of fat replacement technologies. The health benefits of fat reduction, lower cholesterol and reduced calories are well understood, not just by a narrow health niche but by mainstream consumers. However, due to the breakthrough nature of the benefits, strong reassurance is needed that good taste delivery is possible and that the products are safe. "Natural" has been found to be a key reassurance for safety.

4. KGF has disproportionately high representation in product categories that can leverage fat replacement technologies.

Many of KGF's core franchises such as viscous dressing, cheese, ice cream, and pourable dressings are high in fat. These high-fat categories represent $3.6 billion in U.S. retail sales. Importantly, KGF has demonstrated an ability to successfully line extend its franchises with health-focused alternatives such as reduced calories/light products.

5. KGF competitors are aggressively pursuing fat replacement technologies.

Key KGF competitors are evaluating NutraSweet's Simplesse and, along with KGF, are negotiating for possible exclusivity for the ingredient. NutraSweet is also assessing whether to introduce their own fat-free products in core KGF categories. Competitive entries utilizing Simplesse are expected by late 1989. As such, the risk of competitive pre-emption is high if KGF does not aggressively pursue fat replacement technologies.

2024255937

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

SITUATION ASSESSMENT (Cont'd)

6. KGF has multiple strategic opportunity areas for the application of fat replacement technologies.

Fat-free line extensions from existing KGF core businesses represent the highest opportunity for fat replacement technologies, based on consumer research. In addition, technologies can be utilized to improve current light products or to do partial fat replacement. An opportunity also exists to create an umbrella health brand, positioned as a delicious line of foods that are low in fat, cholesterol, calories and sodium--i.e., a broader Weight Watchers concept with a possible entry strategy through frozen meals. Longer term, KGF's fat replacement technologies could be used for ingredient sales to other food manufacturers.

In summary, KGF has the strengths to capitalize on the fat replacement opportunity but product development and scale-up are critical issues for resolution.

STRENGTHS

- Strong brand franchises
- Potentially proprietary technologies
- Demonstrated ability to line extend

OPPORTUNITIES

- Consumer demand for fat free/ reduced fat products
- Ability to be first to market
- Multi-category marketing synergies

WEAKNESSES

- Product delivery not yet confirmed
- Capital/cost structure still to be determined

THREATS

- Short exclusivity period
- Competitive pre-emption
- Regulatory process delays

OBJECTIVES/STRATEGIES

The primary objective of KGF's Fat Replacement program is to lead the marketplace in leveraging the application of fat replacement technologies in both existing and potential new KGF businesses. For our existing businesses, application of fat replacement technologies represents both an offensive opportunity and a defensive necessity. A second objective is to develop internal fat replacement technologies that can provide competitive advantage for KGF. However, KGF will target the best available fat replacement technology on a category-by-category basis, whether that be an internal or external technology.

To achieve these objectives, six strategies have been established for execution across KGF's Operating Groups.

1. Focus on introducing fat-free line extensions of KGF's core brand franchises.

2. Explore an umbrella health brand, leading and anchored in frozen foods.

3. Deliver lower cost and better quality products with KGF's own fat replacement technologies.

4. Develop marketing synergy across KGF brands.

5. Expand the fat replacement program internationally.

6. Develop a program for selling fat replacement ingredients to other food manufacturers.

2024255938

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

ACTION PLANS

Each of these strategies has specific action plans supporting them over the strategic planning horizon.

1. Fat-Free Line Extensions.

The primary thrust of the Fat Replacement Program is the introduction of fat-free line extensions of core brand franchises. Development of new stand-alone trademarks in existing KGF categories is not being pursued as economics favor the line extension approach and competitors are expected to focus on fat-free line extensions of their trademarks.

Although fat replacement product development is occurring across all key KGF categories, priority categories have been established. These priorities are based upon: (1) consumer interest including consumer appeal for the fat free product, expected pricing and probability of good product delivery and (2) value to KGF, including financial value, competitive potential and executional ease. The priority order is:

- Viscous Dressing
- Ice Cream
- Pourable Dressing
- Cream Cheese
- Cheese Slices
- Cultured Dairy Products

Each Operating Group is developing the fat replacement products for their respective categories, although Corporate Development is providing an overall coordination role. The key strategies that the Groups are pursuing for their line extensions are: (1) develop quality products using the best available fat replacement technology that is minimally at parity to the current light product and delivers strong fulfillment against the fat free concept, (2) brand and market the fat replacement products as line extensions, targeting a common subname across categories--e.g., Miracle Whip Free and Breyers Free, and (3) be first to market. These fat-free line extensions are being viewed as additional entries, not replacements for existing light products.

The technology utilized will vary by product category depending upon product delivery, cost structure and expected capital needs. Currently, KGF's internal TBA technology (cellulose/gum) appears to be the near-in opportunity technology because it has the highest probability of delivering the product quality targets, has a lower cost structure and capital needs, and has the fastest availability.

KGF is also evaluating NutraSweet's Simplesse in key categories (ice cream, viscous and pourable dressings). KGF is actively negotiating with NutraSweet for commercialization rights to Simplesse. We will be targeting for exclusive rights to Simplesse in key categories while minimally trying to ensure non-exclusive rights.

The targeted introduction schedule has the first fat-free line extensions entering test market late 1989 with national expansions in mid-to-late 1990.

In addition, application of the internal fat replacement technologies is being pursued with the General Foods USA Bakery Group (Entenmann's, Friehofer, Oroweat) where there is a significant opportunity to create low-calorie/cholesterol baked goods.

2024255939

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

ACTION PLANS (Cont'd)

2. Umbrella Health Brand

The second opportunity area for fat replacement technology application is an umbrella health brand. Conceived as a multi-category line of foods positioned as delicious and healthful, the strategy for the umbrella health brand is to: (1) lead and anchor the brand in frozen foods, (2) expand the brand into core KGF categories only if needed defensively, and (3) extend the brand into non-KGF categories longer term. This strategy will allow KGF to participate in the emerging health area of frozen foods while establishing a core health brand equity that could be extended into other categories if needed. Importantly, fat replacement technology will be utilized where needed for product delivery but the core concept is not dependent on the technology. The selected brand name is "Eating Right." KGF Frozen Group (All American Gourmet) is developing products for test market introduction in late 1989 or early 1990.

3. KGF's Internal Fat Replacement Technology

KGF's internal fat replacement technologies are targeted at delivering better product quality at lower cost than competitive technologies. As mentioned earlier, the TBA technology which utilizes cellulose and gum represents the best near-in opportunity and is the primary focus of product development efforts. The TBII technology, based on proteins and gums, and more similar to Simplesse, has greater complexity in its processing, is more capital intensive, and has flavor issues. However, longer term, TBII may represent the technology of choice because of its protein base and bakeability (whereas Simplesse is not bakeable).

KGF's fat replacement technologies are currently under review by the FDA, and the need for a GRAS petition is being discussed with the FDA.

Significant capital investment will be required to support national expansion of the fat-free line extensions. Capital estimates range from $60-110 million depending on the technology utilized. The technologies are in the final stages of process definition and plant trials across product categories are being conducted. Initial capital commitments ($20 million) for national expansion will be required by mid-1989.

4. Marketing Synergy

Creating marketing synergy across the KGF fat-free line extensions can be a point of leverage for KGF. One area being explored is branding KGF's technology and marketing it directly to consumers, competitive with NutraSweet's Simplesse. The name selected is "NatuBlend." This marketing approach would probably not be utilized on the cellulose-based fat replacement technologies but reserved for the protein-based technologies.

5. International

The fat replacement program will be rapidly expanded internationally by extending domestic product development efforts. Core geographies will be targeted in Europe, Canada, and Australia. Timing for product introductions will be 1990-91.

2024255940

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

ACTION PLANS (Cont'd)

6. Ingredient Sales
   Sales to other food manufacturers of ingredients utilizing KGF's internal fat replacement technologies represents an opportunity area. The KGF Food Ingredient Group is developing a strategy to exploit this opportunity beginning in 1990.

EXPECTED RESULTS

The Fat Replacement Program is expected to deliver strong incremental volume and earnings to KGF's core businesses. The Operating Groups incorporated the fat replacement opportunity within their Strategic Plans, although the program's total potential was not fully reflected given the early stage of development.

INCORPORATED WITHIN GROUP STRATEGIC PLANS	1993 INCREMENTAL	ADDITIONAL OPPORTUNITIES	TOTAL POTENTIAL	1993 INCREMENTAL
Volume	190MM lbs.	• International and Food Ingredient Groups	Volume	225-300MM lbs.
Sales	$215MM	• Additional product categories e.g., cultured	Sales	$250-350MM
O.I.	$20MM	• Premium pricing	O.I.	$30-40MM

Importantly, KGF can achieve competitive advantage with fat replacement in four key areas:

- Leveraging KGF's franchise positions/trademarks
- Capitalizing on the ability to be first to market
- Delivering better product quality at a lower cost structure with internal technologies and product line breadth
- Developing synergy across KGF brands through common marketing approaches

SUMMARY

In conclusion, fat replacement technology represents one of the most exciting new developments in the food industry. Fat replacement technologies will allow KGF to deal fundamentally with one of its key weakness, the high fat content of its portfolio. As such, KGF's Fat Replacement Program represents not only an offensive opportunity but a defensive necessity. The program in place capitalizes on KGF's strengths and is very aggressive. While the risk of competitive pre-emption exists, product development is advancing so that KGF can achieve its objective of marketplace leadership with fat replacement technologies.

2024255941

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Miller Brewing Company

NOTE

Discussion and analysis of competitors is based on public information and internal modeling of competition developed by the Planning Department. Projections and discussions of future actions by competitors are primarily based on extension of historical trends within the context of Miller's forecasted U.S. beer industry environment.

MILLER BREWING COMPANY

2024255942

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MILLER BREWING COMPANY

FIVE YEAR PLAN

1989-1993

2024255943

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

I. STATE OF THE INDUSTRY

A. Overview

After the dramatic volume increase of 2.3% experienced in 1986, the beer industry averaged only a 0.1% increase in 1987 and 1988. The plan assumes a continuation of this trend with industry growth averaging only 0.1% annually through 1993.

INDUSTRY VOLUME
(000 BBLS)

	DOMESTIC SHIPMENTS	IMPORTS	U.S. SUPPLY[1]	TAX FREE[2]	TOTAL INDUSTRY
1983	177,495	6,314	183,809	2,991	186,800
1988	178,000	9,398	187,398	3,800	191,198
CAG*	+0.1%	+8.3%	+0.4%	+4.9%	+0.5%
1993	177,620	10,015	187,635	4,125	191,760
CAG*	-	+1.3%	+0.1%	+1.7%	+0.1%

* - Five Year Compound Annual Growth Rate.
1 - Barrelage shipped to U.S. markets based on Federal taxes paid.
2 - Exports, Military and other Tax Free shipments.

This projection is based on an analysis of the major demographic and sociopolitical issues which will influence the beer industry in the next five years. On balance, demographic factors will have a positive effect while sociopolitical factors have a negative effect, as follows:

- Adult population will increase 0.9% per year. However, the heavier consumption MA-34 segment will decline, partially mitigating the positive effect of the population increase.
- Social attitudes reflect a movement toward moderation of consumption. For example, public support for organizations like MADD (Mothers Against Drunk Driving) continues to grow, and concern for health and fitness is now deeply integrated into lifestyles.
- Neo-prohibitionist legislative sentiment continues to grow. For example, new Excise Taxes are expected during the plan period, and attempts will be made to extend the recently passed warning label legislation to advertising restrictions.

The above factors, in combination, will result in a continued gradual decline in per capita consumption, from 23.6 gallons in 1988 to 22.8 gallons in 1993.

2024255944

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

B. **Categories**

Annualized growth rates vary by category to support the industry forecast of +0.1% per year.

Premium-Price Category - Will grow at an annual rate of +1.0%. Full-Calorie Premiums will decline at an average annual rate of -0.6%, as drinkers continue to switch to Low-Calorie Premiums, which will grow at an annual rate of +4.1%.

Above-Premium Category - Will decline at an average annual rate of -1.4%. Domestic Super-Premiums will decline at an average rate of -4.2%, due primarily to continuing sales losses of the Michelob brand (70% of category). Imports are forecast to show modest volume growth at an annual rate of +1.3%.

Below-Premium Category - Will decline at an annual rate of -1.9%. The continued rapid decline of Regional brands will be only partially offset by the growth of major national Popular and Budget brands like Busch and Milwaukee's Best.

Malt Liquor Category - Will remain flat at 1988 levels.

Wine Cooler Category - Will decline rapidly. This category has failed to develop into a major beverage segment. After peaking in 1987 at 5.5 million barrels, the category fell over 9% in 1988.

INDUSTRY OVERVIEW
CATEGORY VOLUME TRENDS
(VOLUME IN MILLIONS OF BARRELS)

	1983	1988	1993	1983-1988 AVG. ANNUAL GROWTH RATE	1988-1993 AVG. ANNUAL GROWTH RATE
Premium					
Full-Calorie	84.4	80.6	78.2	-0.9%	-0.6%
Low-Calorie	28.7	38.5	47.1	6.1%	4.1%
Total Premium	113.1	119.1	125.3	**1.0%**	**1.0%**
Above-Premium					
Super-Premium	13.1	10.2	8.2	-4.9%	-4.2%
Imports	6.3	9.4	10.0	8.3%	1.3%
Total Above-Premium	19.4	19.6	18.2	**0.2%**	**-1.4%**
Below-Premium	48.5	46.7	42.5	-0.7%	-1.9%
Malt Liquors	5.8	5.8	5.8	0.0%	0.0%
TOTAL ALL BEER CATEGORIES	186.8	191.2	191.8	**0.5%**	**0.1%**
WINE COOLERS	0.2	5.0	3.7	+++	-5.8%

2024255945

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

C. **Competitors**

Aside from MBCO., Anheuser-Busch is the only major brewer who will experience volume growth over the next five years. At an average annual growth rate of 2.2%, their volume will reach 87.4 million barrels in 1993. The Budweiser/Bud Light brands will represent 53.6% of the Premium Category in 1993, increasing 2.8 share points from 1988. Budweiser brand growth will continue to slow gradually while Bud Light will mature from its current double digit growth to slightly under 4.0% in 1993. The Busch brand, positioned at the top end of the Below-Premium Category, is expected to grow at a 6% annual rate during the plan period. A-B will continue to expand Busch and position the brand, as needed, to offset Budweiser losses. Above-Premium volume for A-B will continue to decline, even assuming a modest success on Michelob Dry.

Coors, whose volume has grown due to geographic expansion in recent years, will begin a downward national sales trend, mirroring their trend in base states, now that they have attained nation-wide distribution. Coors Light will continue to grow over the plan period; however, this growth will be insufficient to offset the accelerating decline of Coors' Banquet. The Coors Extra Gold brand, introduced nationally in 1988, has experienced only limited success and will do little to stem Coors' overall erosion.

Heileman and Stroh will both experience volume declines of approximately 6-7% annually. These continuing losses will result from the inability of either brewer to establish a national premium brand name. Future strategies will rely more and more on pricing rather than image building efforts, making long term turnarounds unlikely.

The increasingly difficult competitive environment for second tier brewers is indicated by Stroh's recent efforts to secure offers from foreign brewers to take a minority position in the company. MBCO. will closely monitor this activity.

TOP FIVE BREWERS
FIVE YEAR BEER VOLUME PROJECTIONS*

	1983	1988		1993	
	MM BBLS.	MM BBLS.	CAG**	MM BBLS.	CAG**
Anheuser-Busch	60.5	78.5	+5.3%	87.4	+2.2%
Miller	37.5	40.4	+1.5%	48.3	+3.7%
Stroh	24.3	20.5	-3.3%	14.8	-6.3%
Coors	13.7	16.5	+3.8%	15.0	-1.9%
Heileman	17.9	15.3	-3.1%	10.5	-7.3%
All Others	32.9	20.0	-9.5%	15.8	-4.6%

* - Restated for acquisitions/divestitures
** - Five Year Compound Annual Growth Rate

II. MILLER BREWING COMPANY - FIVE YEAR PLAN

A. **Corporate Objectives:**

- To position the company for long term success in the adult beverage market by concentrating initially on improving performance in the beer industry.
- To increase malt beverage market share by meeting the demand for high quality beer products that appropriately reflect changing consumer needs.
- To insure that these products are produced and marketed so as to provide Philip Morris with an acceptable return on their investment in the brewing industry.

2024255946

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

B. **Key Strategies:** Response to major business issues and key industry success factors.

- ♦ Become the industry change leader in every way we market our brands.
- ♦ Maximize the effectiveness of marketing expenditures by reallocating resources to "Impact Marketing" programs which integrate and localize advertising, promotion and public relations efforts flowing directly from what our brands represent in the mind of the consumer.
- ♦ Concentrate resources on strengthening the Miller Premium Franchise (Miller High Life, Genuine Draft and Lite) by:
  - Consistently communicating distinct brand roles which leverage brand assets and address weaknesses in a complementary manner.
  - Focusing each of our Premium brands against one of three separate consumer groups Budweiser tries to span; ie., drinkers with traditional values (MHL), contemporary adult drinkers (MGD), and low-calorie drinkers (Lite).
- ♦ Improve the financial returns from Below-Premium brands.
- ♦ Direct new product efforts toward high margin categories.
- ♦ Develop a presence in key global markets. Evaluate foreign innovations for their domestic applicability.
- ♦ Strengthen our distributor network.
- ♦ Strengthen our position in the on-premise segment.
- ♦ Direct efforts toward defeating punitive Excise Tax increases and advertising restrictions, while reassuring consumers that beer consumption is socially acceptable.
- ♦ Meet sales demand with cost effective, quality oriented production.

C. **MBCO. Volume/Share Projections**

Overall Miller Brewing Company volume will increase at a 3.5% annual rate, reaching 48.3 million barrels and a 25.2% share of industry in 1993. Premium Full-Calorie brands will average 3.1% growth per year. Miller Genuine Draft volume will more than double by 1993 and Leinenkugel will achieve 700,000 barrels as the brand is expanded. Growth of these brands will more than offset the continued, though moderating decline of Miller High Life. MBCO. will improve its share of the Premium Full-Calorie category by 2.9 share points, reaching 17.7% in 1993.

MBCO. Premium Low-Calorie brands, supported by the introduction of a low-calorie packaged draft, will grow an average of 3.5% per year, matching category growth during the last four years of the plan period, thereby stabilizing share of category at 48.5%.

In the Above-Premium category, MBCO. will introduce a new domestic Super-Premium product by 1991. This new product will serve to offset Lowenbrau's decline and re-establish MBCO. growth in the Above-Premium category. Total Above-Premium volume for MBCO. will represent 8.1% of category volume in 1993, returning MBCO. to the category share level enjoyed by Lowenbrau alone in 1983. Below-Premium volume growth will continue as Milwaukee's Best increases 4.6% per year. This growth results in a 23.9% share of category for MBCO. by the end of the plan period.

During the plan period, MBCO. will dramatically increase the proportion of volume growth represented by Premium and Above-Premium brands, from 20% during 1986-1988 to 76% during 1989-1993.

2024255947

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MILLER BREWING COMPANY
FIVE YEAR PROJECTION
(000 BBLS.)

	1988			1993		
	1983 BBLS.	BBLS.	% CHANGE VS. 1987	SHARE OF CATEGORY*	BBLS.	CAG**	SHARE OF CATEGORY*
Miller High Life	17193	8182	- 11.0%	10.1	5500	- 7.6%	7.0
Miller Genuine Draft	-	3681	+ 43.5%	4.6	7634	+ 15.7%	9.8
Leinenkugel	-	75	N/A	0.1	700	+++	0.9
Other	32	-	N/A	-	50	-	-
Premium Full-Calorie	17225	11938	+ 1.5%	14.8	13884	+ 3.1%	17.7
Lite	17644	19225	+ 0.6%	50.1	20122	+ 0.9%	42.7
Lite Genuine Draft	-	22	N/A	-	2716	+++	5.8
Premium Low-Calorie	17644	19247	+ 0.7%	50.1	22838	+ 3.5%	48.5
Total Premium	**34869**	**31185**	**+ 1.0%**	**26.2**	**36722**	**+ 3.3%**	**29.3**
Lowenbrau	1585	985	- 13.0%	5.0	600	- 9.4%	3.3
New Product	-	-	N/A	-	875	N/A	4.8
Total Above-Premium	**1585**	**985**	**- 13.0%**	**5.0**	**1475**	**+ 8.4%**	**8.1**
Milwaukee Best/Light	-	6725	+ 15.2%	14.3	8438	+ 4.6%	19.9
Meister Brau/Light	899	1241	- 4.8%	2.7	1300	+ 0.9%	3.1
Other (Primarily Magnum)	113	247	+++	0.5	400	+ 10.0%	0.9
Total Below-Premium	**1012**	**8213**	**+ 14.4%**	**17.5**	**10138**	**+ 4.3%**	**23.9**
Total Beer	**37466**	**40383**	**+ 3.1%**	**21.1**	**48335**	**+ 3.7%**	**25.2**
Coolers	-	288	+185.1%	5.8	-	N/A	-
TOTAL VOLUME	**37466**	**40671**	**+ 3.5%**		**48335**	**+ 3.5%**	

* - Reflects shares of individual categories (i.e., Premium Full-Calorie, etc.) except for "Total Beer", which reflects Share of Beer Industry.

** - Five Year Compound Growth Rate

2024255948

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

III. MARKETING PLANS

A. Brand Objectives/Strategies

1. **Full-Calorie Premium Category** - Objective: To profitably build total MBCO. share by growing the MHL/MGD franchise, and establishing Leinenkugel as a new base for growth within the premium segment.

Background: Miller High Life continues to be the brand consumers believe represents the Miller Brewing Company, and it maintains significant volume and presence in the marketplace, especially in key Eastern and Midwest markets. On the other hand, Miller Genuine Draft has begun to re-establish MBCO. among the critical contemporary adult segment, with a strong contemporary appeal and product image rated near the premium ideal. The MGD brand is growing in nearly all areas of the country, and has built strong market share in the West and Midwest. However, market share is lagging in the East and South, and overall national volume remains less than half that of Miller High Life.

Miller High Life - Objective: To profitably reduce the rate of volume decline while asserting traditional beer values on behalf of MHL and all Miller-named products.

Strategies: Since MHL continues to be the brand consumers believe represents the MBCO., the appropriate support of MHL's unique role will remain critical in the early years of the plan period. A new campaign/positioning will be introduced in early 1989 which leverages MHL's smoothness directly against the Budweiser brand, and improves masculinity perceptions. This campaign will establish, on behalf of the Miller name, a base level of traditional values which will free Miller Genuine Draft and Miller Lite to concentrate on more specific demographic appeals.

National advertising will be broadly targeted at the MA-49 market while local marketing efforts will be concentrated on maintaining volume in the Black market (30% of brand volume) and in Eastern/Midwest markets where the brand continues to be well developed. Specifically, targeted sales efforts and the innovative merchandising of local event activities will be used to re-establish brand visibility, especially on-premise.

Long term support of the MHL brand will depend on the synergistic benefits obtained from the Miller-brand role definition described above. If MHL is able to moderate sales declines beyond those indicated in the Five-Year Forecast, the brand will continue to be marketed on a national basis in a highly complementary manner vs. MGD. If the brand cannot significantly moderate sales declines, support will be concentrated in well-developed markets to maintain volume as MGD continues to develop nationally.

2024255949

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Miller Genuine Draft - Objective: To establish a strong national franchise among contemporary adult beer drinkers in order to improve long-term corporate volume and profit growth.

Strategies: The early plan years call for continued development of the MGD brand into a national franchise. Efforts will be directed toward maintaining strong ownership of the "cold-filtered draft" position by reinforcing the linkages to fresh, smooth, "real" taste benefits. Emphasis will also be placed on enhancing the brand's contemporary, masculine, confident user image. Localized marketing will play a key role in assuring the brand's national growth. "Impact marketing", as described earlier in Key Corporate Strategies, will be used in the early plan years to fuel the growth of Western and Midwest markets and accelerate the brand's development in key influential Eastern and Southern markets.

As the plan period progresses and Miller Genuine Draft's volume surpasses Miller High Life's by 1992, Miller Genuine Draft will become a primary contributor to MBCO. profitability. Concurrently, the brand will increase its role in corporate event sponsorships, and it will gradually offer consumers a full complement of packages.

Leinenkugel - Objective: To develop a quality beer trademark and profitably build volume for MBCO. by leveraging existing brand equity nationally over time.

Background: The new product track record in the beer industry suggests that strong beer heritage is a primary contributor to success. The Leinenkugel Brewery, acquired in early 1988, possesses the image and product attributes in its three-state distribution area (Wisconsin, Minnesota and Illinois) that will form the basis for future growth.

Strategies: During the early plan years, efforts will be concentrated on building momentum in current areas, expanding the brand to contiguous Midwest markets, and testing the brand in non-contiguous markets. Leinenkugel will be positioned as a unique and distinctive beer from a small brewery whose "mystique" is being discovered by contemporary adult drinkers. This positioning will be supported by low levels of highly targeted media efforts and by publicity, social marketing and select key account on-premise distribution efforts. If market testing in early plan years indicates that Leinenkugel volume and image can be built profitably beyond current markets, national expansion will be accomplished during the later plan years.

2. **Low-Calorie Premium Category** - Objective: To profitably build total MBCO. market share by maintaining share in the growing Low-Calorie category.

Background: Although the primary source for low-calorie volume continues to be premium switchers, entry-level drinkers are growing in importance. In recent years, Bud Light and Coors Light have been particularly successful against the entry level drinker, and have become the driving brands in category growth, while Miller Lite has attracted less than its fair share of new premium switchers and entry level drinkers.

2024255950

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Until late 1988, Miller Lite continued to broadly "sell" the low-calorie category, while Bud Light and Coors Light positioned themselves more specifically vs. contemporary adults as the "best lights." During late 1988, Miller Lite initiated a positioning change which leverages Lite's market leadership, provides a compelling reason for current drinkers to remain loyal, and draws contemporary adults into the franchise. This positioning communicates taste superiority over other light beers based on the fact that Lite was designed to be a true light beer, rather than a watered down version of a regular beer.

In order for MBCO. to achieve its overall volume and profit goals during the plan period, we must maintain our leadership position and stabilize share in the growing low-calorie premium category by 1990. Therefore, in addition to our repositioning efforts on Lite, we have begun testing two low-calorie packaged draft brandings, Lite Genuine Draft and Miller Genuine Draft Light. Both of these brands are positioned single-mindedly against contemporary adults as full-bodied draft beers that are less filling; i.e., closer to regular beers than other low-calorie brands.

Lite Genuine Draft has been in four test markets since April of 1988, with encouraging results. Testing was expanded to the state of Arizona in early 1989. The Miller Genuine Draft Light brand is in development, and has not yet entered test markets.

Our overall goal concerning Miller Lite and the low-calorie package draft project is to execute the plan which results in the best possible balance of the following three objectives:

- Growing MBCO. share in the low-calorie premium category.
- Capitalizing on MBCO. equity in the packaged draft concept.
- Maintaining strong growth in the Miller Genuine Draft franchise.

Miller Lite - Objective: To significantly increase Lite's share of the contemporary adult drinker segment while maintaining a solid hold on the brand's current drinkers.

Strategies: Our primary marketing objective in the next 18 months is to make Miller Lite grow with the category and establish a strong user base of contemporary adult drinkers. During early plan years, financial resources will be devoted to establishing Lite's new positioning and making the brand relevant to all drinkers, especially contemporary adults. With advertising as a base, efforts will be devoted to developing both national and regional "Impact Marketing" programs to gain distributor and consumer involvement in the brand. Programs will flow out of what the brand represents in the consumer's mind, and they will be of sufficient length to become part of brand marketing, totally blending advertising and promotion.

Longer term plans will depend on the progress Miller Lite makes during 1989 and early 1990 toward matching category growth on its own, and the results of low-calorie packaged draft test markets.

2024255951

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Low-Calorie Draft - Objective: To expand MBCO.'s leadership position in the low-calorie category overall and particularly with young adults; to capitalize upon and contribute to the legitimacy of MBCO.'s ownership of the packaged draft concept; and to minimize cannibalization of other MBCO. brands.

Strategies: While financial resources are concentrated on rejuvenating Miller Lite early in the plan period, Lite Genuine Draft and Miller Genuine Draft Light will be fine-tuned so that one of them will be ready for national introduction as early as 1990.

Although primary emphasis in the last year has been placed behind the Lite Genuine Draft branding because of its potential to bring contemporary adults directly into the Lite franchise, the Miller Genuine Draft Light branding will also be thoroughly market tested, beginning in July, 1989.

The decision concerning which brand to introduce nationally will be based on a comparison of test market results with regard to the three overall marketing goals mentioned earlier.

3. **Below-Premium Category** - Objective: To increase profitability of MBCO. Below-Premium brands while maintaining volume growth.

Background: When it was introduced in 1984, the original role for MBCO.'s primary Below-Premium entry, Milwaukee's Best, was to increase capacity utilization. The brand has achieved that objective, and now controls over 40% of the industry's budget priced volume. However, the volume attained is at low margin compared to other MBCO. brands.

Strategies: Over the plan period, prices will be raised on Milwaukee's Best above general industry increases. The brand's marginal contribution will be selectively improved by market so as to insure that corporate volume goals are not in jeopardy. This strategy will generate over $114.0 million of additional profits during the plan period. Opportunities to further enhance profitability through the use of less expensive packaging will also be explored.

4. **Above-Premium Category** - Objective: To increase MBCO. volume, share, and profitability in the Above-Premium category by successfully introducing a new product, and maximizing Lowenbrau volume at minimum contractual spending levels.

Above-Premium New Product - Objective: To profitably increase MBCO. volume/share in the Above-Premium category, and improve consumer perceptions of the Miller name, by introducing a domestic brand with meaningful product and positioning points-of-difference.

Strategies: Although it is currently planned that Lowenbrau will continue to represent substantial profit and volume through the plan period, MBCO will introduce a new Above-Premium product to take full advantage of the segment volume being made available by the eroding Michelob brand. New product concepts will be screened and the best product selected for test market by late 1989. Efforts will be directed to insure that MBCO. is prepared to roll nationally no later than early 1991.

2024255952

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Lowenbrau - Objective: To profitably manage Lowenbrau by spending at minimal contractual levels and positioning the brand to attract Super-Premium and Import drinkers.

Strategies: During the early plan years, the primary focus will be on repositioning the brand to appeal to both Super-Premium and Import drinkers. This new positioning will take full advantage of Lowenbrau's well-known European heritage by emphasizing its 600-year history and lion symbology. To maintain an acceptable profit level during the plan period, marketing expenditures will be held to the minimum mandated by our contractual licensing agreement.

MBCO.'s licensing agreement with Lowenbrau Munich is scheduled to expire in 1992, with options extending until 1994. During early plan years, we will work closely with the U. S. based marketing corporation that has been recently established by Lowenbrau Munich. Marketing plans will be shared, line extensions jointly explored and overseas successes evaluated for domestic applicability. The success of these efforts during the first two plan years will determine MBCO.'s strategy in later years. By the fourth quarter of 1990, MBCO. will either 1) continue image-building efforts in anticipation of renewing the contract, 2) initiate short-term profit maximization strategies in anticipation of non-renewal, or 3) attempt to renegotiate the contract to obtain better terms.

5. **Wine Coolers** - Objective: To effectively divest or discontinue Matilda Bay by 1990. In the interim, to market the brand at a profit while supporting those distributors who have made sizeable investments.

Strategies: Although Matilda Bay achieved an acceptable share level in its introductory year, overall volume did not meet goals due to category declines. As currently projected, the category will not be large enough for MBCO. to develop Matilda Bay into a profitable brand. Marketing efforts during 1989 will be concentrated on providing retail support in local markets where distributors have invested heavily in the brand and maintain significant market shares. While brand discontinuance appears most likely long term, efforts will be made to partially recover our investment by seeking to divest the brand.

6. **New Products** - Objective: To develop innovative new product entries which provide MBCO. incremental volume and profit.

Strategies: To insure that MBCO. pioneers the next industry innovation, we have established an Innovation Team staffed with uniquely qualified individuals from Marketing, Operations and Administration. This team will systematically seek, screen and recommend implementation of new concepts that will meet or create a consumer need. These new concepts must possess a product and positioning point of difference that can be made into an acceptable consumer benefit, and they must meet stringent volume, margin and payback criteria.

MBCO.'s strategy in new product development has been prioritized into three phases. As mentioned earlier, initial efforts will focus on providing better representation in the Above-Premium category by introducing a domestic entry. On an intermediate term basis, our strategy includes meeting emerging consumer trends with lower calorie or no/low alcohol products, and expanding Miller's presence into other categories where we are not well represented. Specifically, efforts to identify an Import beer and to develop a near-premium priced beer (competitive with Busch) will be pursued.

2024255953

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

The Miller Brand name is likely to become overextended once it represents 4-5 brands. Long term, therefore, the need to add new trademarks to Miller's portfolio will be addressed. Since developing new trademarks is not only extremely expensive, but also has a low probability of success, MBCO. will concentrate on acquiring either established brewer trademarks, or non-beer trademarks that lend themselves appropriately to a beer product association.

B. **International** - Objective: To continue to enhance MBCO.'s image and visibility by establishing a presence in those International Markets that offer the opportunity to achieve acceptable financial returns.

Strategies: While some previously closed international markets are opening to imports (Taiwan, Korea and Mexico) and selected countries are experiencing growth trends (Italy, Spain, Japan), the overall international volume trend can be expected to remain relatively flat over the plan period. International brewers are addressing this environment via consolidation efforts and intercompany relationships.

During the next five years, MBCO. will target to increase its export sales by introducing Miller Genuine Draft in the current markets of Japan and Canada while opening new markets such as Australia, Singapore and Paraguay. Emphasis will be placed on increasing our share of the U. S. military market, and expanding our use of duty free and hard currency outlets. Lobbying efforts will continue in Puerto Rico to allow standard packaging sizes and the clear bottle.

Licensing agreements will be sought and expanded, with efforts primarily directed toward Europe. Additionally, Miller's overall position on joint ventures will be reviewed and such proposals will be considered if they offer a profitable opportunity to enter key international markets. Throughout the plan period, new product and packaging concepts emerging overseas will be identified and evaluated for possible use in the domestic U. S. market.

Overall, MBCO. export volume will increase from 357M barrels in 1988 to 641M in 1993, while Total MBCO. International Income from Operations increases from $1.4MM to $7.7MM.

C. Sales Objectives & Strategies

1. **Distribution** - Objective: To expand on-premise product distribution and visibility on a national basis.

Strategies: Even though industry on-premise consumption will decline over the next five years, MBCO.'s success in both existing and new product ventures will require an increased presence in this marketing arena because of the key role it plays in product sampling and in-market image building.

The following steps will be taken to improve MBCO.'s on-premise presence:

- The number of on-premise chain managers will be increased.
- Greater financial resources will be devoted to chain-specific promotions.
- Special incentive programs will be used to motivate distributors to stress on-premise penetration in key accounts, and
- Special pricing tactics will continue to be used in high-volume key accounts such as airports, stadia, etc.

2024255954

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

2. **Distributor Network** - Objective: To strengthen both the financial and marketing resources of MBCO.'s Distributor Network.

Strategies: The Sales Division is currently undergoing a reorganization that will, when completed later this year, allow MBCO. a closer relationship with its distributors. This is being done to improve our ability to both assess and respond to their needs. By reducing the geographic areas of responsibility, MBCO. personnel will be able to take a more direct proactive role in local market execution. In conjunction with the reorganization, all states will have individualized distributor meetings to identify and address specific opportunities.

Our Business Planning Team will continue to counsel financially weak distributors, and our "Miller Profit Network" program will offer all distributors attractive financing opportunities via PM Credit Corp. Currently this program addresses fixed asset acquisitions, group insurance alternatives, and inventory financing. Expansion of the "Miller Profit Network" into other areas of efficiencies will be continually pursued.

On a longer term basis, a major study will be conducted to evaluate MBCO.'s distribution system's ability to serve the marketplace in the 1990's and beyond, and to make recommendations concerning market assignments, agreements, MBCO. policies, etc.

IV. SOCIOPOLITICAL PLAN

Objective: To maintain a proactive role as a responsible corporate citizen, assuring that the brewing industry is fairly represented versus both the consumer and the federal, state and local political processes.

Strategies: Congress has passed the "Alcoholic Beverage Labeling Act of 1988" which requires warning labels on primary packages by November of this year. MBCO. will comply with this requirement as early as possible in 1989 to demonstrate a cooperative attitude in accepting our corporate responsibility. However, MBCO. will, in conjunction with the Beer and Wine Institute, vigorously oppose any expansion of warning labels to outer packaging or other advertising media. A coalition of broadcasters and advertising agencies will also coordinate grass roots pressure to address any proposed legislation that extends warning label requirements.

Budgetary pressures will continue to drive efforts to raise the current $9.00 per barrel Federal Excise Tax as well as state taxes. MBCO. will actively oppose punitive Excise Tax increases by joining efforts with the Beer Institute, "CART" (Coalition Against Regressive Taxation) and, at the grass roots level, the Beer Drinkers of America organization. Efforts will be targeted toward mobilizing public opinion at local levels while working closely on a national basis with Philip Morris' Washington, D. C. office.

2024255955

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

V. OPERATIONS PLAN

A. Overall Capacity - Objective: To effectively utilize currently available capacity until such time that expansion becomes operationally/financially advantageous.

Strategies: The projected sales demand, an increase of 7.7 million barrels by 1993, will require MBCO. to undertake a significant production capacity increase during the plan period. In fact, considering the current brand/package requirements, additional capacity will be needed as early as 1991. MBCO. will meet the production demand over the next two years by operating current breweries on an overtime basis, as needed. The Eastern breweries will continue to use their excess capacity to meet production shortages expected in the West.

Additionally, studies are underway to identify opportunities to consolidate production of or, when appropriate, eliminate low volume packages requiring significant changeover time. Efforts to explore brewing or package changes that increase throughput will also continue.

While alternatives will continue to be evaluated, the Five Year Plan assumes the phased opening of the Trenton Brewery in 1991. A recent review of options indicates that opening the brewery is least costly from a capital standpoint, reflects annual operating/diversion expenses that are comparable to other options, and allows the most flexibility to further expand production capacity beyond the 1993 needs. Of additional importance, is the fact that the phased opening of Trenton requires the least lead time, approximately six months. As such, sales demand can develop further prior to MBCO. making a firm commitment.

B. Packaged Draft Capacity - Objective: To design and install packaged draft beer capacity so as to allow MBCO. to maintain its competitive advantage.

Strategies: The demand for packaged draft beer will increase over 300% during the plan, exceeding 10.0 million barrels by 1993. This growth includes the introduction of a low-calorie packaged draft product in 1990 and reflects the development of a full line of packages. By the end of 1989, packaged draft capability will be available at four breweries as a result of the pending installation at Fulton. While research efforts are underway to identify and implement procedural and/or equipment modification that would increase the throughput of existing capacity, the packaged draft sales demand necessitates capital expenditures of approximately $125.0 million during the next five years. Installations will be completed at the remaining two breweries by 1991 and Trenton will receive "draft" capability in 1992. Once capacity is available at all seven facilities, the Five Year Plan includes an enhancement program to increase capacity in critical geographic areas.

2024255956

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FINANCIAL PLAN

Summary: Operating revenue will reach $4.6 billion in 1993, an increase of nearly $1.4 billion over 1988. This average annual growth of 7.3% will cause Operating Revenue Per Barrel to increase nearly $16.00 over the five-year period, reaching $96.06 in 1993.

Income from Operations reaches $377 million in 1993, an increase of $187 million over 1988. This average annual growth rate of nearly 15% is primarily due to:

- Annual volume increases of 3.5%;
- An increase in the average marginal contribution per barrel from $35.25 to $40.51 as annual price increases of approximately 3% more than offset direct material cost increases. Additionally, higher Milwaukee's Best pricing will contribute to the Marginal Contribution increase;
- More efficient marketing. Miller marketing expenditures will increase only 5.5% annually compared to a 7.1% projected industry inflation rate; and
- More efficient operations. Operating efficiencies will result from several major efforts. Specifically, increased packaged "draft" capability will lower annual diversion expense; production at the new hop plant will result in lower material costs by the end of 1989; the 1988 early retirement program will save approximately $10.0 million in annual salary related expenses; and the 1989 conversion to a new non-returnable bottle shape will result in lower material and labor costs.

Net earnings are forecasted to be $214 million for the year 1993. This represents an annual average growth rate of 4.8%, or $45 million over 1988. After adjusting 1988 Net Income to exclude the impact of FAS 96, the annual growth over the next five years increases to 16.8%.

Excess Cash generated will average $200 million per year and will aggregate to over $1.0 billion for the five year period. This will be accomplished during a period when capital expenditures are forecasted to approximate $450 million. These expenditures are required to increase overall capacity, expand our packaged "draft" capability, implement cost reduction projects, and replace aging equipment at our facilities.

Return on Assets for MBCO. reaches 25.7% in 1993, as compared to 11.5% in 1988. This increase is due to our Operating Income Return On Sales improving from 6.8% in 1988 to a 1993 high of 9.2%, and our asset base declining by $200 million by the end of the plan period.

2024255957

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MILLER BREWING COMPANY
1989 FIVE YEAR PLAN
INCOME STATEMENT
(Millions)

	ACTUAL 1983	ACTUAL 1988	BUDGET 1989	PLAN 1990	PLAN 1991	PLAN 1992	PLAN 1993	1983-1988 GROWTH RATE	1988-1993 GROWTH RATE
SALES IN BARRELS	37.5	40.7	42.1	43.6	45.1	46.7	48.3	1.7	3.5
Net Sales - Wholesalers	$2,888.5	$3,215.4	$3,469.6	$3,706.1	$3,976.3	$4,261.0	$4,564.5	2.2	7.3
- Retailers	11.3	19.8	15.4	17.4	19.6	21.9	24.3	11.9	4.2
- International	33.6	23.7	26.8	31.8	37.0	43.0	49.4	(6.7)	15.8
- Royalty Income	0.0	3.6	3.7	3.9	4.2	4.4	4.7	100.0	5.3
TOTAL OPERATING REVENUES	$2,933.4	$3,262.5	$3,515.5	$3,759.2	$4,037.1	$4,330.3	$4,642.9	2.1	7.3
TOTAL VARIABLE COST OF SALES	1,713.1	1,829.1	2,024.8	2,163.3	2,323.6	2,498.5	2,685.2	1.3	8.0
TOTAL MARGINAL CONTRIBUTION	$1,220.3	$1,433.4	$1,490.7	$1,595.9	$1,713.5	$1,831.8	$1,957.7	3.3	6.4
TOTAL FIXED EXPENSES	494.6	529.0	537.7	573.2	610.3	636.5	661.8	1.4	4.6
AVAILABLE PROFIT	$ 725.7	$ 904.4	$ 953.0	$1,022.7	$1,103.2	$1,195.3	$1,295.9	4.5	7.5
Total Marketing	$ 384.1	$ 583.3	$ 599.4	$ 635.9	$ 673.6	$ 717.1	$ 762.6	8.7	5.5
Branch Expense	34.1	17.4	14.9	15.7	16.5	17.2	18.0	(12.6)	0.7
General and Administrative	80.2	119.3	117.3	122.0	126.9	132.0	137.2	8.3	2.8
Other Deductions (Income)	3.3	(5.7)	1.4	1.4	1.4	1.4	1.4	N/M	N/M
TOTAL EXPENSE	$ 501.7	$ 714.3	$ 733.0	$ 775.0	$ 818.4	$ 867.7	$ 919.2	7.3	5.2
INCOME FROM OPERATIONS	$ 224.0	$ 190.1	$ 220.0	$ 247.7	$ 284.8	$ 327.6	$ 376.7	(3.2)	14.7
Non-Operating Items	0.6	28.6	25.3	25.6	25.9	26.3	26.4	100.0	(1.6)
EARNINGS BEFORE INCOME TAXES	$ 223.4	$ 161.5	$ 194.7	$ 222.1	$ 258.9	$ 301.3	$ 350.3	(6.3)	16.7
Tax Provision	97.2	(7.6)	76.2	86.6	101.0	117.5	136.6	N/M	N/M
NET EARNINGS	$ 126.2	$ 169.1	$ 118.5	$ 135.5	$ 157.9	$ 183.8	$ 213.7	6.0	4.8

2024255958

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MILLER BREWING COMPANY
1989 FIVE YEAR PLAN
BALANCE SHEET AT DECEMBER 31
(Millions)

	ACTUAL 1983	ACTUAL 1988	BUDGET 1989	PLAN 1990	PLAN 1991	PLAN 1992	PLAN 1993
ASSETS							
Cash	$ 2.5	$ 1.2	$ 1.5	$ 1.5	$ 1.5	$ 1.5	$ 1.5
Accounts Receivable	25.3	69.4	71.8	76.4	81.5	86.9	92.6
Total Inventories	130.8	151.9	136.5	150.3	166.7	177.3	187.0
Prepaid Expenses	10.3	3.2	2.9	3.0	3.2	3.3	3.5
Total Current Assets	$ 168.9	$ 225.7	$ 212.7	$ 231.2	$ 252.9	$ 269.0	$ 284.6
Property, Plant and Equipment	1,779.8	1,200.0	1,156.1	1,131.0	1,093.5	1,038.5	948.4
Other Assets	194.7	197.2	197.0	196.9	196.8	196.6	196.5
Total Assets	$2,143.4	$1,622.9	$1,565.8	$1,559.1	$1,543.2	$1,504.1	$1,429.5
LIABILITIES AND EQUITY							
Current Liabilities	$ 242.7	$ 278.3	$ 316.3	$ 333.4	$ 353.9	$ 375.5	$ 396.9
Deferred Income Taxes	305.3	207.8	199.2	181.3	161.6	144.8	128.3
Long Term Debt	107.5	133.3	131.4	129.4	126.5	122.9	121.0
Other Liabilities	11.7	1.7	1.6	1.7	1.7	1.7	1.7
Total Liabilities	$ 667.2	$ 621.1	$ 648.5	$ 645.8	$ 643.7	$ 644.9	$ 647.9
Stockholder's Equity	885.7	834.5	871.0	867.0	853.2	812.9	735.3
Inter-Company Account	590.5	167.3	46.3	46.3	46.3	46.3	46.3
Total Liabilities and Equity	$2,143.4	$1,622.9	$1,565.8	$1,559.1	$1,543.2	$1,504.1	$1,429.5

2024255959

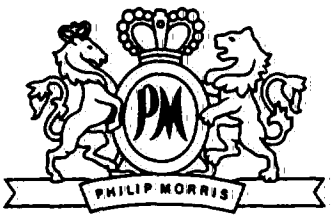
Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MILLER BREWING COMPANY
1989 FIVE YEAR PLAN
CASH FLOW STATEMENT
(Millions)

	ACTUAL 1983	ACTUAL 1988	BUDGET 1989	PLAN 1990	PLAN 1991	PLAN 1992	PLAN 1993
CASH FLOW FROM OPERATING ACTIVITIES							
Net Earnings	$ 126.2	$ 169.1	$ 118.5	$ 135.5	$ 157.9	$ 183.8	$213.7
Depreciation & Amortization	145.3	155.9	164.6	160.7	165.1	165.3	163.0
Deferred Income Taxes	65.3	(108.2)	(8.6)	(17.9)	(19.7)	(16.8)	(16.5)
Funds From Operations	$ 336.8	$ 216.8	$ 274.5	$ 278.3	$ 303.3	$ 332.3	$360.2
(Increase)/Decrease Working Capital	20.1	36.8	49.9	(1.4)	(1.2)	5.5	5.8
Other	0.0	(9.0)	(8.0)	0.0	0.0	0.0	0.0
Total	$ 356.9	$ 244.6	$ 316.4	$ 276.9	$ 302.1	$ 337.8	$366.0
CASH FLOW FROM INVESTING ACTIVITIES							
Capital Expenditures	$(174.2)	$ (86.0)	$ (97.9)	$(111.4)	$(103.3)	$ (86.0)	$(48.7)
Purchase of Operations	0.0	(4.1)	0.0	0.0	0.0	0.0	0.0
Proceeds from Sale of Operations	0.0	9.3	0.0	0.0	0.0	0.0	0.0
Disposal of Assets	14.3	2.5	5.0	2.0	2.0	2.0	2.0
Other, Net	(16.2)	(17.3)	(18.2)	(26.0)	(26.2)	(26.1)	(26.1)
Total	$(176.1)	$ (95.6)	$(111.1)	$(135.4)	$(127.5)	$(110.1)	$(72.8)
CASH FLOW FROM FINANCING ACTIVITIES							
Long Term Debt Financing	$ 0.0	$ 0.5	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Long Term Debt Repaid	0.0	(7.5)	(2.0)	(2.0)	(2.9)	(3.6)	(1.9)
Total	$ 0.0	$ (7.0)	$ (2.0)	$ (2.0)	$ (2.9)	$ (3.6)	$ (1.9)
Affiliate & Intercompany Accounts	(181.9)	(142.7)	(203.0)	(139.5)	(171.7)	(224.1)	(291.3)
Net Change in Cash	(1.1)	(0.7)	0.3	0.0	0.0	0.0	0.0
Cash at Beginning of Year	3.6	1.9	1.2	1.5	1.5	1.5	1.5
Cash at End of Year	$ 2.5	$ 1.2	$ 1.5	$ 1.5	$ 1.5	$ 1.5	$ 1.5

2024255960

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000



Financial & Real Estate Services

FINANCIAL & REAL ESTATE SERVICES

NOTE

Discussion and analysis of competitors is based on public information and internal modeling of competition developed by the Planning Department. Projections and discussions of future actions by competitors are primarily based on extension of historical trends within the context of forecasted industry environment.

2024255961

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION

FIVE YEAR PLAN

1989 - 1993

2024255962

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION
1989-1993 FIVE YEAR PLAN HIGHLIGHTS
($ In Millions)

	1988 Actual	1989 Original Budget	1990	1991	1992	1993
Revenues	$ 177.5	$ 221.8	$ 291.7	$ 354.0	$ 426.2	$ 520.2
Net Income:						
PMCC Net Income	$ 64.4	$ 78.0	$ 95.5	$ 113.2	$ 134.3	$ 162.3
MVRG Net Income	61.1	54.0	38.0	24.0	27.0	30.0
Intercompany Adj.	(2.2)	(2.8)	(2.9)	(2.3)	(2.3)	(2.3)
Total Net Income	$ 123.3(A)	$ 129.2	$ 130.6	$ 134.9	$ 159.0	$ 190.0
Total Assets	$3,271.7	$3,914.6	$4,756.2	$5,730.8	$6,849.5	$8,179.9
Total Debt	$1,503.9	$1,833.8	$2,141.6	$2,502.9	$3,026.0	$3,616.1
Investment Program	$ 516.0	$ 734.0	$ 830.0	$ 935.0	$1,050.0	$1,200.0
Reduction In Taxes Paid	$ 214.1	$ 290.0	$ 339.0	$ 382.0	$ 418.0	$ 478.0
Dividend To PM Companies	-	$ 100.0	-	-	$ 50.0	$ 50.0
Loss Reserve Ratio	1.8%	1.9%	2.0%	2.0%	2.0%	2.0%
PMCC Excluding MVRG (B)						
Return On Equity	27.3%	29.9%	32.1%	28.2%	26.8%	27.1%
Total Debt/Equity	6.3	8.3	7.0	6.2	6.2	6.1
PMCC Including MVRG						
Return On Equity	21.6%	19.3%	17.5%	15.3%	15.9%	16.9%
Total Debt/Equity	2.3	2.7	2.6	2.6	2.9	3.0

(A) Excludes FASB #96 net income gains of $7.8 million for PMCC and $33.1 million for MVRG.

(B) Pro forma statistics exclude MVRG's net income and both the debt and equity issued by PMCC in connection with the MVRG acquisition.

2024255963

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

INTRODUCTION

Over the 1989-1993 Five Year Plan, PMCC will continue to operate within the original charter established in 1982 by the Philip Morris Companies Inc. Board of Directors. The Credit Corporation will provide financing for customers and suppliers of Philip Morris' operating companies and invest in tax-oriented transactions, which include investments in leasing, preferred stock and tax-exempt debt.

A major objective for PMCC over the next five years will be to increase the Credit Corporation's investment in the customer and supplier financing area. The Credit Corporation has implemented several strategies to achieve this objective. In the leasing and preferred stock/tax-exempt debt areas, PMCC will employ the same strategies and investment guidelines that have been successfully implemented in the past. PMCC's three main business segments; customer and supplier financing, leasing, and preferred stock/ tax-exempt debt, will account for approximately 90% of PMCC's investment program over the next five years.

In addition to these mainstream activities, PMCC will also invest in subordinated debt and equity transactions with customers and suppliers that provide a tangible benefit to Philip Morris' operating companies.

PMCC's strategic role within Philip Morris Companies will be to continue to develop a financial services business which supports and benefits Philip Morris Companies' mainstream businesses and provides an attractive return on the parent company's capital. Over the next five years, the Credit Corporation's key objectives will be to:

- Build a portfolio of financial assets with high quality credit characteristics.
- Minimize borrowing costs by accessing world-wide capital markets.
- Maximize Philip Morris' return on capital invested in PMCC and maintain an annual net earnings growth rate of at least 20%.
- Develop the systems and organization necessary to accommodate a higher volume of transactions.

FINANCIAL SUMMARY

Revenues and Earnings

PMCC's Five Year Plan projects revenues rising from $221.8 million in 1989 to $520.2 million in 1993, representing a 23.8% average annual growth rate. PMCC's net earnings are projected to increase at a 20.1% average annual rate, from $78 million in 1989 to $162.3 million in 1993.

	1989	1993	Average Growth
Financing Revenues	$ 221.8	$ 520.2	23.8%
Net Earnings	$ 78.0	$ 162.3	20.1%

2024255964

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Revenues are projected to increase at a somewhat faster rate than net earnings due to higher assumed interest rates on debt financings during the later years of the Plan and the continuing impact of an accounting adjustment to PMCC's leveraged lease portfolio made in 1986.

	Average Annual Growth Rate		
	Previous Five Years 1984-1988	Five Year Plan 1989-1993	Ten Year Period 1984-1993
Revenues	35.6%	23.8%	28.9%
Net Earnings	55.3%	20.1%	34.9%

Compared to the previous five years, PMCC's annual growth rate for revenues and net earnings over the 1989-1993 Plan period will moderate. However, at an average annual growth rate of 23.8% for revenues and 20.1% for net income, PMCC's projected growth rates remain at attractive levels.

Over the ten year period 1984-1993, PMCC's average annual revenue and net earnings growth rates are projected to be 28.9% and 34.9%, respectively.

Investment Program And Strategies

PMCC's investment program will total $4.7 billion over the 1989-1993 Plan period and average approximately $0.9 billion annually.

Schedule of New Investments
(In Millions)

	1989	1990	1991	1992	1993	Total 1989-1993	% of Total
Leasing	$ 400	$ 375	$ 450	$ 500	$ 550	$ 2,275	48%
Customer & Supplier Fin.	134	180	210	250	300	1,074	23
Pref. Stock & Tax-Exempts	150	175	175	175	200	875	18
Sub. Debt & Equity	50	100	100	125	150	525	11
	$ 734	$ 830	$ 935	$1,050	$1,200	$ 4,749	100%

Leasing investments will account for $2.3 billion, or 48%, of the total investment program. In the leasing area, PMCC's strategy will be to continue focusing upon the large-ticket segment of the market. In the past, there has been a lack of competition in this segment, and PMCC has been able to earn premium returns from its investments. Additionally, PMCC will continue to employ the same investment guidelines established at the program's inception, which include:

- Lessees must possess investment grade credit ratings or equivalent support, such as a letter of credit.
- Leased property must not be subject to technological obsolescence risk unless the transaction makes economic sense with a zero residual value assumption.
- Lease terms generally in the 5-30 year range.
- Lease portfolio will be developed with a view towards credit and equipment diversification.

2024255965

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

It will be a high priority for PMCC over the Five Year Plan to expand its customer and supplier financing programs. Strategies for achieving this goal are detailed in the Strategic Issues section of this Plan. These investments are projected to more than double over the Plan period, rising from $134 million in 1989 to $300 million in 1993.

Preferred stock and tax-exempt debt investments will total $875 million over the Plan period. As in the past, the Credit Corporation will continue to employ the same investment strategies and guidelines, which include:

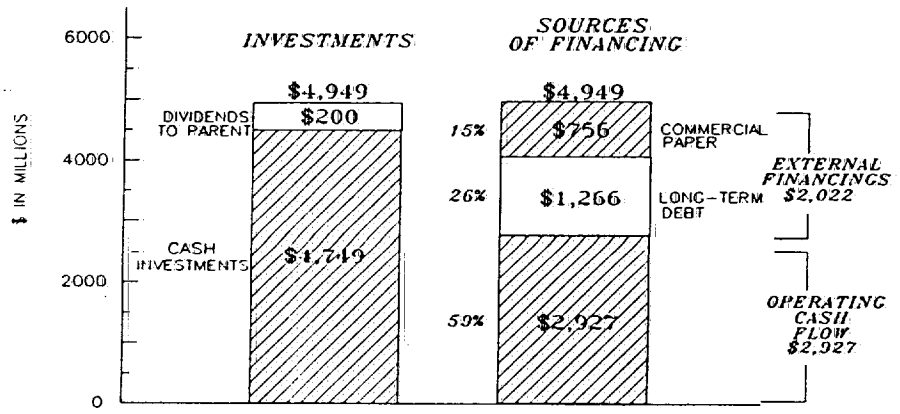
- The issuer must possess an investment grade credit rating.
- Investments will be made primarily in publicly traded issues to enhance liquidity.
- In the case of preferred stock, utility investments will be limited to issuers possessing no nuclear construction risk.

Subordinated debt and equity transactions will account for 11% of the total investment program. In keeping with our strategic objectives, these investments will focus on customers and suppliers of Philip Morris' operating companies and will only be made if the investment provides the operating company with a tangible benefit.

Financing Program Highlights

PMCC will finance its $4.7 billion investment program primarily through internally generated cash flow. Over the Plan period, cash flow from operations will total $2.9 billion. This cash flow will be derived mainly from $1.9 billion in income tax savings and $583 million in retained earnings. In addition, PMCC will receive dividends of $155 million from Mission Viejo Realty Group.

SOURCES OF FINANCING



External debt financings will total $2.0 billion over the Plan period. These financings will be structured with a view towards matching the interest structures and maturities of PMCC's asset and liability portfolios. The $2.0 billion in external debt financings will be comprised of $1.3 billion in new net long-term debt and a $756 million increase in commercial paper.

2024255966

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PMCC will pay $200 million in dividends to Philip Morris Companies over the next five years. This capital will not be required to support PMCC's future growth. Despite these dividends, PMCC will still maintain relatively low leverage ratios over the Plan period (see page 7).

Composition of Assets

PMCC's total net finance assets are projected to increase from $3.3 billion in 1989 to $7.6 billion in 1993.

Finance Assets By Business Segment
(In Millions)

	1989		1993	
	$	%	$	%
Customer & Supplier Financing	$ 475	14%	$ 1,334	17%
Leasing	1,950	58	4,295	55
Preferred Stock & Tax-Exempt Debt	821	24	1,512	20
Subordinated Debt	146	4	621	8
Total Finance Assets	3,392	100%	7,762	100%
Loss Reserves	(45)		(112)	
Net Finance Assets	$3,347		$ 7,650	

In keeping with PMCC's strategic objectives, customer and supplier finance assets will grow from 14% to 17% of total finance assets by 1993. This growth occurs despite the fact that no new MVRG residential mortgage investments will be made after 1992. However, because the average size of a customer financing transaction tends to be small (less than $1 million), the segment's share will grow relatively slowly despite the expected higher volume of transactions. Combined customer and supplier finance assets will total $475 million at the end of 1989 and are projected to increase to $1.3 billion by 1993.

Leasing assets will total $2.0 billion at the end of 1989 and grow to $4.3 billion by 1993. As a percent of total finance assets, leasing assets will comprise approximately half of the portfolio over the Plan period.

Although preferred stock and tax-exempt debt investments will grow from $821 million in 1989 to $1.5 billion in 1993, their importance in the total portfolio will be reduced from 24% in 1989 to 20% in 1993. Subordinated debt and equity investments will increase from $146 million in 1989 to $621 million in 1993.

Net Income Contribution by Segment

Throughout the five year period covered by the Plan, over 90% of PMCC's net earnings will continue to be derived from PMCC's basic business segments: customer and supplier financing, leasing, and preferred stock/tax-exempt debt.

2024255967

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

	Net Income Contribution			
	In Millions		% of Total	
	1989	1993	1989	1993
Customer Financing	$ 24.3	$ 54.0	27%	29%
Leasing	40.7	75.3	45	40
Preferred Stock & Tax-Exempt Debt	21.3	42.0	24	23
Subordinated Debt	3.5	15.3	4	8
Total	89.8	186.6	100%	100%
After-Tax Indirect G & A Expense	(5.6)	(10.7)		
After-Tax Loss Provision	(6.2)	(13.6)		
Total PMCC Net Income	$ 78.0	162.3		

Customer and supplier financing will account for 29% of net earnings in 1993, up from 27% in 1989. Leasing investments will contribute $75.3 million of net earnings by 1993. However, the relative contribution of leasing to net earnings will decline from 45% in 1989 to 40% in 1993. This decline is due to a projected reduction in the rate of increase in leasing investments and to the run-off of income from leasing investments made in prior years. Net income from preferred stock and tax-exempt debt investments will nearly double from $21.3 million in 1989 to $42 million in 1993.

Reduction In Income Taxes Paid

Principally as a result of its leasing investments, PMCC will generate a federal income tax loss of $.8 billion in 1989, increasing to $1.4 billion by 1993. These tax losses will result in a reduction in income taxes paid in 1989 of $290 million, increasing to $478 million by 1993. This increase is mainly due to tax benefits from new leasing investments.

On a cumulative basis, PMCC's tax losses will have reduced Philip Morris' taxes paid by $2.9 billion by year-end 1993. This reduction in income taxes results in positive cash flow to PMCC. This cash flow, in turn, will be used to finance the majority of PMCC's investment program, thereby reducing the Credit Corporation's external debt financings over the Plan period.

Philip Morris Companies will have excess taxable income capacity to accommodate the Federal income tax losses generated by PMCC. Current projections indicate that PMCC could shelter an additional $501 million of taxable income in 1989 and $737 million in 1990 before the Alternative Minimum Tax (AMT) applies. Total Federal income taxes that could be sheltered by PMCC amount to $1.4 billion in 1989 and $1.7 billion in 1990.

	1989	1990
PM Companies Taxable Income - Excluding PMCC	$ 3,050	$ 3,790
PMCC Taxable Loss	(852)	(997)
Total Philip Morris Companies Taxable Income	2,198	2,793
Additional Philip Morris Companies Taxable Income Capacity Before Alternative Minimum Tax Applies	501	737
Total Amount of Taxable Income PMCC Could Shelter	1,353	1,734

2024255968

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Financial Returns

Excluding MVRG, PMCC's after-tax return on equity will equal 29.9% in 1989 and 27.1% in 1993. The slight decline in return from 1990 to 1993 is due to higher assumed debt interest rates on new financings, offset somewhat by the payment of a $50 million dividend in both 1992 and 1993 to Philip Morris Companies. Including MVRG, PMCC's after-tax return on equity will range from 15.3% to 19.3% over the 1989-1993 period.

Leverage Ratios

PMCC's use of leverage is conservative. The rating agencies permit PMCC's financial assets (excluding MVRG's assets) to be leveraged in the 7:1 - 9:1 range without affecting the parent company's debt rating. The projected debt-to-equity ratio of 6:1 in the later years of the Plan is below this range, representing unused debt capacity.

Because MVRG's real estate assets are less leverageable than PMCC's financial assets, when PMCC's and MVRG's assets are combined, the Credit Corporation's targeted debt-to-equity ratio is approximately 5:1 - 6:1. Including MVRG, PMCC's leverage ratios will be approximately 3:1 throughout the Plan period. This is well below the targeted range and also represents significant unused debt capacity.

Finance Company Comparisons

Comparison with a representative sample of finance companies, detailed on page 16, reveals that PMCC's average return on equity for the Five Year Plan period is the highest among the nine major finance companies included in the sample. This occurs despite the fact that PMCC's average debt-to-equity ratio of 6.8 for the Plan period is conservative compared to other finance companies.

PMCC's loss reserve ratio will average about 2% over the Five Year Plan. This ratio is close to the average for the finance companies included in the sample. However, PMCC's assets are higher in quality than those of the other finance companies, with 94% of PMCC's third-party assets rated investment grade as of December 31, 1988. In this light, PMCC's 2% loss reserve is conservative.

STRATEGIC ISSUES

A number of strategic issues will confront PMCC during the Five Year Plan period, including:

- How will PMCC increase its investment in the customer and supplier financing area?
- How will PMCC manage a higher volume of transactions without disproportionately increasing G&A expense?

2024255969

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

- How will PMCC's financial projections be affected if it does not meet its Five Year Plan investment objectives?

- What changes in PMCC's organization will be made to accommodate the projected growth?

- What are the limits to PMCC's asset and liability growth given the new consolidation rules under SFAS No. 94?

In order to achieve its Five Year Plan objectives, PMCC must address these issues. A discussion is provided below.

ISSUE: HOW WILL PMCC INCREASE ITS INVESTMENT IN CUSTOMER AND SUPPLIER FINANCING?

A major strategic goal of PMCC is to identify and develop customer and supplier financing programs that provide a tangible benefit to Philip Morris' operating companies and an appropriate return to PMCC. The Five Year Plan projects that PMCC will invest $1.1 billion in customer and supplier programs over the 1989-1993 period.

In 1988, PMCC developed a program for Miller Brewing Company distributors which will serve as a model for future customer and supplier financing activities. Under this program, PMCC established a branch office in Milwaukee to promote a better understanding of Miller's business. The branch office also enabled Miller's financial and marketing personnel to become more familiar with PMCC and better able to help identify opportunities for improving their business through customer and supplier financing.

PMCC also focused upon identifying financing programs applicable to the entire Miller customer network, rather than responding only to individual financing opportunities. The recently launched Inventory Financing Program is an example of this type of program.

Finally, PMCC located its branch office within Miller's existing headquarters facility, which proved to be a relatively inexpensive undertaking. This strategy for locating a branch allowed PMCC to avoid significant incremental overhead costs and greatly reduced the branch's break-even point.

Following the Miller example, PMCC will work closely with each Philip Morris operating company in the future to identify and structure programs applicable to a large category of customer and suppliers. In general, these programs will offer standard terms and documentation, which will lower PMCC's marketing, legal, and administrative expenses on a per transaction basis.

If warranted, a branch office will be established at the operating company location and staffed with a limited number of marketing personnel. However, the accounting, credit, and legal support will continue to be centralized in New York.

2024255970

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

To handle an anticipated higher volume of transactions, PMCC installed a low-cost loan servicing system in 1988. This system will provide PMCC with sufficient capacity over the Plan period and eliminate the need for a significant number of additional "back office" personnel.

Before engaging in any customer and supplier financing activity, PMCC and the Philip Morris operating company involved must agree that the proposed financing is likely to produce an incremental financial benefit to the operating company. PMCC will proceed with a program only if this condition is met.

PMCC will introduce several programs under this new strategy within the near future. For example, in the first quarter of 1989, PMCC will introduce a Fixed Asset Financing Program for participants in PM USA's "Masters in Distribution Excellence" Program as well as a Truck Financing Program for Miller distributors.

ISSUE: **HOW WILL PMCC MANAGE A HIGHER VOLUME OF TRANSACTIONS WITHOUT DISPROPORTIONATELY INCREASING G & A EXPENSE?**

PMCC's continued growth and the increased emphasis on its customer and supplier financing business will lead to a higher volume of transactions. PMCC has initiated several strategies to control the growth in G&A expense.

A major initiative in controlling G & A expense will be the development of a program format for PMCC customer and supplier financings. These programs will offer standardized terms and documentation, with little or no variation in any individual transaction. As a result, per transaction marketing, legal and administrative costs will be reduced.

In addition, PMCC has implemented strategies in the Accounting, Credit and Legal areas in order to manage the expected higher volume of transactions.

Accounting Systems. PMCC has installed a number of accounting systems over the past several years that can effectively process a higher volume of transactions. These systems will allow PMCC to increase its transaction volume without disproportionately increasing overhead expense.

- In the customer and supplier financing area, PMCC acquired a loan processing system that automatically performs the billing, collection, and accounting functions. This system was obtained at a relatively low cost and will be used for all future customer and supplier financing programs.

- In the leasing area, PMCC is installing a state-of-the-art lease accounting system. This system will reduce the significant labor component involved in lease accounting.

- In the preferred stock and tax-exempt debt area, PMCC has contracted with a major financial institution for custodial and accounting services. This has improved PMCC's control over the collection of interest and dividends and eliminated much of the clerical and accounting support necessary to manage these portfolios.

2024255971

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Credit Systems. In recent years, the number of accounts reviewed and monitored by PMCC's Credit Department has grown rapidly. In response, PMCC has developed a computer-based account tracking system. This system monitors all accounts for compliance with various covenants (e.g. insurance, financial reporting, etc.) in PMCC's loan and lease agreements. In addition, PMCC has expanded its information sources to include an on-line information retrieval system.

Legal Review. Legal review and representation, which represents a major expense category for PMCC, will be controlled through the standardization of documents and procedures. Although PMCC will have to retain local counsel for certain transactions, such as those involving real property and improvements, PMCC's standard documentation will be designed to comply with applicable requirements of state and local law, which should reduce the burden of review by local counsel. PMCC has also developed systems to monitor certain aspects of state and local law, such as interest rate limitations (usury) and security interest perfection.

ISSUE: HOW WILL PMCC'S FINANCIAL PROJECTIONS BE AFFECTED IF THE CREDIT CORPORATION DOES NOT MEET ITS FIVE YEAR PLAN INVESTMENT OBJECTIVES?

A number of factors could prevent PMCC from meeting its investment objectives. For example, PMCC may encounter: (1) a reduced supply of transactions meeting its credit guidelines; (2) increased competition in its various markets; or (3) revisions to the tax law which would reduce the tax benefits associated with tax-oriented transactions. If any of these factors occurred, PMCC would be unable to complete its investment program.

However, PMCC's financial projections are relatively insensitive to minor variations in its investment program. This occurs because the majority of any year's net income is attributable to transactions booked in prior years.

For example, if PMCC's Five Year Plan investment program were to be reduced by 25% in each year, net earnings growth would only be reduced to 16.5% per annum over the five year period and after-tax return on equity would remain above 25%.

ISSUE: WHAT CHANGES WILL BE MADE TO PMCC'S ORGANIZATION TO ACCOMMODATE ITS PROJECTED GROWTH?

PMCC's current organizational structure should be sufficient to manage future growth. Investments in new accounting and credit systems will enable PMCC to manage anticipated growth with only limited additions to staff over the next few years.

Over the Plan period, PMCC will add personnel in two key areas. Consistent with our strategy of emphasizing customer and supplier financing, PMCC will locate marketing personnel at key operating company locations, assuming opportunities for profitable expansion are identified. This initiative will involve a limited number of additions to staff.

2024255972

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

As PMCC's leasing portfolio matures, the Credit Corporation will face the challenge of maximizing the residual values inherent in its equipment portfolio. Leases having an original equipment cost of approximately $500 million will expire over the next five years. As a result, it will be necessary for PMCC to recruit or develop the expertise necessary to manage these residual values.

ISSUE: WHAT ARE THE LIMITS TO PMCC'S ASSET AND LIABILITY GROWTH GIVEN THE NEW CONSOLIDATION RULES UNDER SFAS NO. 94?

SFAS No. 94 requires that PMCC and Philip Morris Companies Inc. be consolidated for financial reporting purposes. This new accounting requirement will not, however, affect PMCC's ability to finance its asset growth.

The debt rating agencies analyze the balance sheets of Philip Morris Companies and PMCC on both a combined and a separate basis. As a general principle, as long as PMCC's assets are appropriately leveraged, PMCC debt will not impinge upon the parent company's debt capacity. The accounting consolidation required under SFAS No. 94 does not change this general principle.

The rating agencies view financial assets as inherently more liquid and higher in quality than operating assets, and they will permit PMCC's financial assets to be leveraged with a debt/equity ratio in the 7:1 - 9:1 range without affecting the parent company's debt rating. In contrast, Philip Morris Companies' operating assets can be leveraged with a debt/equity ratio of approximately 2:1 at its current debt rating.

Because real estate assets are less leverageable than financial assets, the rating agencies will permit PMCC's and MVRG's combined assets to be leveraged with a debt/equity ratio of 5:1 - 6:1.

The Five Year Plan projects that PMCC's financial assets will be leveraged with a debt/equity ratio averaging 6.8:1 over the 1989-1993 period, and PMCC's and MVRG's combined assets will be leveraged with a debt/equity ratio averaging 2.8:1. These debt/equity ratios are low given the character of the assets involved. As a result, PMCC has ample unused borrowing capacity to fund its growth over the Five Year Plan period without affecting the parent company's debt rating.

2024255973

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION
1989-1993 FIVE YEAR PLAN
MANAGEMENT ANALYSIS OF OPERATIONS

(In Millions)

	1983 Actual	1988 Actual	1989 Original Budget	1990	1991	1992	1993	Average Annual Growth 1989-1993
PHILIP MORRIS CREDIT CORPORATION:								
REVENUES	$ 24.1	$ 177.5	$ 221.8	$ 291.7	$ 354.0	$ 426.2	$ 520.2	23.8%
EXPENSES:								
Interest Expense	14.7	97.5	112.9	149.5	183.9	219.6	268.0	24.1%
General and Administrative Expense	0.4	5.2	5.8	7.1	8.7	10.6	13.0	22.4%
Corporate Assessment	-	3.1	3.3	3.5	3.8	4.0	4.3	6.8%
Servicing Expense	0.3	1.2	1.1	1.0	1.0	0.8	0.7	-10.7%
Depreciation Expense	-	0.2	0.2	0.2	0.2	0.2	0.2	-
Loss Provision	-	7.0	10.0	12.0	15.0	18.0	22.0	21.8%
Total Expenses	15.4	114.2	133.3	173.3	212.6	253.2	308.2	23.3%
INCOME BEFORE INCOME TAXES	8.7	63.3	88.5	118.4	141.4	173.0	212.0	24.4%
PROVISION FOR INCOME TAXES	4.2	(1.1)	10.5	22.9	28.2	38.7	49.7	47.5%
TOTAL PMCC NET EARNINGS	$ 4.5	$ 64.4	$ 78.0	$ 95.5	$ 113.2	$ 134.3	$ 162.3	20.1%
MVRG CONTRIBUTION AND ADJUSTMENTS:								
MVRG Net Earnings	-	61.1	54.0	38.0	24.0	27.0	30.0	-13.7%
Consolidating Adjustments	-	(2.2)	(2.8)	(2.9)	(2.3)	(2.3)	(2.3)	-
Total	-	58.9	51.2	35.1	21.7	24.7	27.7	-14.2%
NET EARNINGS	$ 4.5	$ 123.3 *	$ 129.2	$ 130.6	$ 134.9	$ 159.0	$ 190.0	10.1%

* 1988 FIGURES EXCLUDE FASB #96 NET INCOME GAINS OF $7.8 MILLION FOR PMCC AND $33.1 MILLION FOR MVRG.

2024255974

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION INCLUDING MVRG
1989-1993 FIVE YEAR PLAN
BALANCE SHEETS

	1983 Actual	1988 Actual	1989 Original Budget	1990	1991	1992	1993	1988-1993 Change
Assets:								
Finance Assets	$ 239.7	$ 3,329.3	$ 4,244.2	$ 5,202.6	$ 6,346.3	$ 7,629.5	$ 9,111.1	$ 5,781.8
Less: Unearned Income	(16.6)	(693.5)	(852.1)	(929.0)	(1,060.2)	(1,195.3)	(1,349.4)	(655.9)
Allowance For Losses	-	(34.8)	(44.8)	(56.8)	(71.8)	(89.8)	(111.8)	(77.0)
Net Finance Assets	223.1	2,601.0	3,347.3	4,216.8	5,214.3	6,344.4	7,649.9	5,048.9
Real Estate Assets	-	379.3	373.0	369.7	390.5	391.6	425.9	46.6
Goodwill	-	40.2	39.5	39.2	38.5	37.8	37.1	(3.1)
Other Assets	53.0	251.2	154.8	130.5	87.5	75.7	67.0	(184.2)
Total Assets	$ 276.1	$ 3,271.7	$ 3,914.6	$ 4,756.2	$ 5,730.8	$ 6,849.5	$ 8,179.9	$ 4,908.2
Liabilities:								
Commercial Paper	$ 84.4	$ 263.8	$ 499.5	756.6	712.2	943.0	1,019.3	755.5
Long-Term Debt	54.2	1,240.1	1,334.3	1,385.0	1,790.7	2,083.0	2,596.8	1,356.7
Capital Notes Due Parent	87.1	-	-	-	-	-	-	-
Other Liabilities	11.3	220.5	217.5	198.8	253.6	288.7	314.1	93.6
Deferred Income Taxes	6.0	893.5	1,180.3	1,602.2	2,025.8	2,477.3	3,052.2	2,158.7
Total Liabilities	243.0	2,617.9	3,231.6	3,942.6	4,782.3	5,792.0	6,982.4	4,364.5
Stockholder's Equity:								
Common Stock	27.7	346.4	346.4	346.4	346.4	346.4	346.4	0.0
Retained Earnings	5.4	347.4	476.6	607.2	742.1	901.1	1,091.1	743.7
Dividends to Parent	-	(40.0)	(140.0)	(140.0)	(140.0)	(190.0)	(240.0)	(200.0)
Total Stockholder's Equity	33.1	653.8	683.0	813.6	948.5	1,057.5	1,197.5	543.7
Total Liabilities & Stockholder's Equity	$ 276.1	$ 3,271.7	$ 3,914.6	$ 4,756.2	$ 5,730.8	$ 6,849.5	$ 8,179.9	$ 4,908.2
Total Debt/Equity	6.8	2.3	2.7	2.6	2.6	2.9	3.0	
Return On Equity	14.7%	21.6%	19.3%	17.5%	15.3%	15.9%	16.9%	

2024255975

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION EXCLUDING MVRG
1989-1993 FIVE YEAR PLAN
BALANCE SHEETS

	1988 Actual	1989 Original Budget	1990	1991	1992	1993	1988-1993 Change
Assets:							
Finance Assets	$ 3,329.3	$ 4,244.2	$ 5,202.6	$ 6,346.3	$ 7,629.5	$ 9,111.1	$ 5,781.8
Less: Unearned Income	(693.5)	.(852.1)	(929.0)	(1,060.2)	(1,195.3)	(1,349.4)	(655.9)
Allowance For Losses	(34.8)	(44.8)	(56.8)	(71.8)	(89.8)	(111.8)	(77.0)
Net Finance Assets	2,601.0	3,347.3	4,216.8	5,214.3	6,344.4	7,649.9	5,048.9
Investment In and Advances To MVRG	110.1	154.9	162.2	153.8	146.2	158.3	48.2
Other Assets	243.5	114.8	102.5	75.7	61.3	59.2	(184.3)
Total Assets	$ 2,954.6	$ 3,617.0	$ 4,481.5	$ 5,443.8	$ 6,551.9	$ 7,867.4	$ 4,912.8
Liabilities:							
Commercial Paper	$ 263.8	$ 499.5	756.6	712.2	943.0	1,019.3	755.5
Long-Term Debt	1,448.0	1,582.8	1,665.4	2,109.0	2,413.5	2,945.9	1,497.9
Other Liabilities	93.9	110.1	142.0	161.3	196.9	221.8	127.9
Deferred Income Taxes	876.9	1,174.6	1,572.0	2,002.6	2,455.5	3,025.1	2,148.2
Total Liabilities	2,682.6	3,367.0	4,136.0	4,985.1	6,008.9	7,212.1	4,529.5
Stockholder's Equity:							
Common Stock	50.0	50.0	50.0	50.0	50.0	50.0	-
Retained Earnings	222.0	300.0	395.5	508.7	643.0	805.3	583.3
Dividends to Parent	-	(100.0)	(100.0)	(100.0)	(150.0)	(200.0)	(200.0)
Total Stockholder's Equity	272.0	250.0	345.5	458.7	543.0	655.3	383.3
Total Liabilities & Stockholder's Equity	$ 2,954.6	$ 3,617.0	$ 4,481.5	$ 5,443.8	$ 6,551.9	$ 7,867.4	$ 4,912.8
Total Debt/Equity	6.3	8.3	7.0	6.2	6.2	6.1	
Return On Equity	27.3%	29.9%	32.1%	28.2%	26.8%	27.1%	

NOTE: This proforma balance sheet restates PMCC's assets, liabilities, and stockholder's equity as if the July 1, 1986 merger of PMCC and MVRG had not occurred.

2024255976

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION
1989-1993 FIVE YEAR PLAN
STATEMENTS OF CASH FLOWS

($ In Millions)

	1983 Actual	1988 Actual	1989 Original Budget	1990	1991	1992	1993	Total FYP 1989-1993
CASH FLOWS FROM OPERATING ACTIVITIES:								
Net Earnings	$ 4.5	$ 164.2	$ 129.2	$ 130.6	$ 134.9	$ 159.0	$ 190.0	$ 743.7
Adjustments To Reconcile Net Earnings To Operating Cash Flows:								
Deferred Income Taxes	4.1	178.1	286.8	421.9	423.6	451.5	574.9	2,158.7
Amortization of Debt Discount	6.6	18.3	14.5	16.0	18.2	19.8	22.2	90.7
Cumulative Adjustments	0.0	(40.9)	0.0	0.0	0.0	0.0	0.0	0.0
Provision For Losses	0.0	7.0	10.0	12.0	15.0	18.0	22.0	77.0
Other	11.2	52.9	67.9	(45.6)	21.0	(50.5)	(92.7)	(99.9)
Net Cash Flows From Operating Activities	$ 26.4	$ 379.6	$ 508.4	$ 534.9	$ 612.7	$ 597.8	$ 716.4	$ 2,970.2
CASH FLOWS FROM INVESTING ACTIVITIES:								
Finance Assets	$ (165.8)	$ (516.0)	$ (734.0)	$ (830.0)	$ (935.0)	$(1,050.0)	$(1,200.0)	$(4,749.0)
Currency Transactions With Parent	0.0	(42.8)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	109.6	6.3	3.3	(20.8)	(1.1)	(34.3)	(46.6)
Net Cash Flow From Investing Activities	$ (165.8)	$ (449.2)	$ (727.7)	$ (826.7)	$ (955.8)	$(1,051.1)	$(1,234.3)	$(4,795.6)
CASH FLOWS FROM FINANCING ACTIVITIES:								
Increases In Commercial Paper	$ 52.4	$ (20.2)	$ 235.7	$ 257.1	$ (44.4)	$ 230.8	$ 76.3	$ 755.5
Capital Notes Issued (Repaid) To Parent	87.1	(90.0)	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt Issued	0.0	201.0	100.0	300.0	400.0	700.0	800.0	2,300.0
Long-Term Debt Retired	0.0	(32.0)	(20.3)	(265.3)	(12.5)	(427.5)	(308.4)	(1,034.0)
Dividends Paid	0.0	0.0	(100.0)	0.0	0.0	(50.0)	(50.0)	(200.0)
Other	0.0	10.8	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow From Financing Activities	$ 139.5	$ 69.6	$ 215.4	$ 291.8	$ 343.1	$ 453.3	$ 517.9	$ 1,821.5
NET CHANGE IN CASH	$ 0.1	$ 0.0	$ (3.9)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ (3.9)
CASH AT BEGINNING OF YEAR	$ 0.0	$ 3.9	$ 3.9	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 3.9
CASH AT END OF YEAR	$ 0.1	$ 3.9	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0

2024255977

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS CREDIT CORPORATION
1989-1993 FIVE YEAR PLAN
FINANCE COMPANY COMPARISONS - 1987

	G&A Expense % Of Revenues	Loss Reserve Ratio	Return On Equity	Debt/Equity Ratio	Total Assets ($ Billions)
Chrysler Financial	17.4%	1.3%	10.1%	8.4	$ 25.3
Ford Motor Credit	10.5	1.7	20.5	11.8	51.2
General Electric Capital	18.5	2.6	17.3	9.2	36.6
GMAC	11.0	1.3	21.8	11.7	98.5
IBM Credit	11.0	1.0	12.6	6.6	6.4
ITT Financial	28.9	3.5	18.0	6.2	7.8
McDonnell-Douglas Finance	18.1	2.2	22.1	6.6	2.2
Westinghouse Credit	14.5	2.5	16.4	6.6	6.3
Xerox Credit	19.6	2.8	17.3	4.7	3.3
Group Average	16.6%	2.1%	17.3%	8.0	$ 26.4
PMCC 1988 Actual	4.7%	1.8%	27.3%	6.3	3.0
PMCC 1989-1993 Average	3.7%	2.0%	28.8%	6.8	5.6

2024255978

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MISSION VIEJO REALTY GROUP

INTRODUCTION

The 1989 - 1993 Mission Viejo Realty Group (MVRG) Five Year Plan projects the continued implementation of the strategy of gradual withdrawal from many aspects of the real estate business. This strategy seeks to maximize near term cash flow and profitability yet causes no appreciable disruption of services in the communities involved and no diminution in the value of the residual land. The preferred course of action is to focus MVRG's effort on land holdings and land development while winding down its involvement in the homebuilding segment, which requires substantial funds, employs most of the people and magnifies risk during periods of economic downturns. MVRG is projected to evolve into the land development arm of Philip Morris Credit Corporation (PMCC). This activity will be profitable and will generate acceptable returns for Philip Morris. To accomplish these objectives, MVRG will:

- Protect and/or enhance MVRG's rights to develop its properties according to plans previously approved by governmental authorities.
- Increase the absorption of MVRG-owned real estate by third parties while reducing homebuilding activities as appropriate for each location. The company expects to be out of the homebuilding business by 1992.
- Withdraw from most existing joint ventures by 1990.
- Sell all business property investments (such as convenience retail centers, or service stations)
- Withdraw from ancillary businesses such as home decorating centers, mortgage banking, recreation centers, resale realty, cattle operations, golf courses and other.
- Develop the self-sufficiency of the various quasi-municipal entities including homeowner associations and other.
- Reduce staff and administrative positions by use of contract services and ongoing consolidation and streamlining.
- Seek suitable undeveloped property for an inventory replacement program.

REVIEW OF 1988

Favorable California market conditions enabled MVRG to show $453.9 million in revenues, $100.2 million in earnings before taxes and $94.2 million in net earnings including the adjustment for income taxes of $33.1 million resulting from the adoption of FAS 96, results which exceeded all previous records in MVRG's history. Substantial progress was made in the implementation of the restructuring plan. By year-end, MVRG's personnel count had decreased by 149 which represents a 24% decrease from from the prior year end, and a 57% decrease in personnel since the program's inception. MVRG paid $196.7 million in dividends during 1988 to PMCC. As a result, returns on equity increased significantly to 31.9% in 1988 compared to 8.6% in 1987.

2024255979

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

FINANCIAL SUMMARY

The business is projected to generate $137.3 million of cash over the plan period. During this period, $155.2 million will be dividended to PMCC.

Sales of houses are expected to decline over the plan period from $89.4 million in 1989 (650 units) to virtually none in 1993. This reflects the phase down of both the California housing operations with final closings in 1989 and the Colorado housing operations with final house closings in 1992. Residential and business property land sales of $245 million in 1989 will taper off to $165.5 million of revenues in 1993. A full line of land products is anticipated ranging from raw sites of a few hundred acres to finished lot sales in small amounts.

Gross profit margins on house and land sales are projected to remain at current rates, however, overall gross margins will increase from 29.7% in 1988 to 38.3% in 1993 as product mix shifts away from houses toward land sales over the five year period.

During the five year period we anticipate restructuring staffing levels from 1,042 people in June of 1987 to 275 people in 1993. In 1993 the staff will be largely dedicated to land development, land sales and support activities. Total expenses are thus expected to decline from $33.9 million in 1988 to $12.9 million in 1993. Substantial staffing reductions have already occurred so that MVRG ended the year with 470 people in 1988. The reductions will be partially offset by inflation and higher costs for contract services.

Net earnings will peak in 1989 at $54 million reflecting the high level of residential land sales in that year, decline to $24.0 million in 1991 and rise slightly to $30 million in 1993 as a function of the higher margins on land sales.

Total assets decline slightly over the plan period from $437.2 million in 1988 to $436 million. The principal reductions relate to the liquidation of $57.5 million of residential housing inventories, $34.4 million of income-producing properties and $3.7 million of equity in joint ventures. Inventories of land held for development or sale increase from $290.5 million in 1988 to $421.5 million in 1993. In order to sell the land, the company must continue to invest in land development such as roads, water and waste facilities, grading, capitalized interest and other improvements. Thus, cash generated by sales of land over the five year period of $793.5 million will be partially offset by land development, offtract and other expenses reinvested in inventories of land. In addition, assets in 1993 are expected to increase as a result of the addition of properties under the Inventory Replacement Program, approved by Philip Morris in 1988. At the end of the five year period, land held for development or sale will comprise 96.7% of total assets. This represents 57% of the remaining Aliso Viejo land and 87% of the remaining Highlands Ranch land. All of the remaining Mission Viejo land will be sold.

Returns will reflect the fluctuations in earnings and will peak in 1989, fall from 1990 to 1991 and rise gradually to 1993. Return on equity of 31.9% in 1988 will rise to 36.5% in 1989 and fluctuate to 19.7% in 1993.

2024255980

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

STRATEGIC ISSUES AND STRATEGIES

Substantially Reduce Resources Devoted to Real Estate without "Fire Sale" Pricing Policies

We wish to avoid creating ill will and loss of confidence of customers. Therefore, we will not opt to undercut previously realized prices in order to generate near-term volume. The damage to the realization of longer-term values will far outweigh any near-term benefits. The MVRG plan is designed to generate substantial near-term cash flows without the need to resort to such damaging pricing practices.

As stated elsewhere, the focus of the plan is the elimination of homebuilding and attendant investment in housing inventories. The trade-off for this relatively quick generation of cash will be lower short term profitability unless land sale volumes increase sufficiently to replace the lost gross margin from housing. However, year-to-year earnings are expected to fluctuate more widely than in the past.

This increased fluctuation in earnings is a by-product of the new business strategy, however, real estate is a relatively minor element in the overall company earnings picture, and decreasing in importance over the plan period.

Inventory Replacement Program

Philip Morris approved a $25 million inventory replacement program which will be implemented in 1989 with subsequent additions as appropriate in later years. These acquisitions are expected to require periods of holding and development which will extend the commencement of sales and income recognition beyond 1993.

2024255981

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MISSION VIEJO REALTY GROUP INC.
FIVE YEAR PLAN 1989 - 1993

STATEMENT OF CONSOLIDATED OPERATIONS
(In thousands of dollars)

	1983 ACTUAL	1988 ACTUAL	1989 BUDGET	1990	1991	1992	1993	TOTAL 1989-1993
OPERATING REVENUES:								
RESIDENTIAL LAND SALES	$21,300	$184,500	$211,800	$92,400	$65,700	$62,700	$90,200	$522,800
BUSINESS PROPERTIES SALES	14,700	57,300	33,200	80,200	46,300	67,100	75,300	302,100
HOUSING AND OTHER	222,400	212,100	89,400	68,600	65,500	34,000	0	257,500
TOTAL OPERATING REVENUES	258,400	453,900	334,400	241,200	177,500	163,800	165,500	1,082,400
TOTAL COST OF SALES	206,000	319,300	226,300	161,500	122,100	105,100	102,100	717,100
AVAILABLE INCOME:								
RESIDENTIAL LAND SALES	6,100	78,300	90,500	51,700	34,400	27,800	40,700	245,100
BUSINESS PROPERTIES SALES	8,600	26,100	14,800	27,500	20,500	35,000	32,500	130,300
HOUSING AND OTHER	47,600	38,700	12,300	9,900	9,500	5,000	0	36,700
INDIRECT COST OF SALES	(9,900)	(8,500)	(9,500)	(9,400)	(9,000)	(9,100)	(9,800)	(46,800)
TOTAL AVAILABLE INCOME	52,400	134,600	108,100	79,700	55,400	58,700	63,400	365,300
EXPENSES:								
SELLING AND MARKETING	8,500	9,500	8,100	8,000	7,600	6,900	6,300	36,900
GENERAL AND ADMINISTRATIVE	3,400	5,200	5,600	5,400	5,400	5,300	5,600	27,300
OTHER DEDUCTIONS, NET	400	19,200	3,900	2,800	1,900	1,000	1,000	10,600
TOTAL EXPENSES	12,300	33,900	17,600	16,200	14,900	13,200	12,900	74,800
NEW YORK CORPORATE ASSESSMENT	0	500	500	500	500	500	500	2,500
EARNINGS BEFORE INCOME TAXES	40,100	100,200	90,000	63,000	40,000	45,000	50,000	288,000
PROVISION FOR INCOME TAXES	20,500	39,100	36,000	25,000	16,000	18,000	20,000	115,000
NET EARNINGS BEFORE ACCOUNTING CHANGE	19,600	61,100	54,000	38,000	24,000	27,000	30,000	173,000
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	0	33,100	0	0	0	0	0	0
NET EARNINGS	$19,600	$94,200	$54,000	$38,000	$24,000	$27,000	$30,000	$173,000

2024255982

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MISSION VIEJO REALTY GROUP INC.
FIVE YEAR PLAN 1989 - 1993

CONSOLIDATED PROJECTED BALANCE SHEETS
(In thousands of dollars)

	ACTUAL 1983	ACTUAL 1988	1989	1990	1991	1992	1993
CASH	$1,300	$1,000	$500	$500	$500	$500	$500
ACCOUNTS & NOTES RECEIVABLE	24,800	27,000	17,900	9,900	7,400	4,500	4,300
INVENTORY:							
RESIDENTIAL HOUSING OPERATIONS & MODEL HOMES	209,600	57,500	41,400	41,100	14,300	500	0
LAND HELD FOR DEVELOPMENT OR SALE	182,000	290,500	292,000	322,600	346,600	363,400	421,500
EQUITY IN JOINT VENTURES	0	3,700	1,800	1,800	0	0	0
INCOME PRODUCING PROPERTIES	4,000	34,400	47,800	17,700	29,600	27,700	4,400
OTHER PROPERTY & EQUIPMENT, NET OF DEPRECIATION	14,200	4,400	4,100	3,900	3,800	3,600	3,500
OTHER ASSETS	14,600	18,700	17,500	13,700	10,100	5,800	1,800
	$450,500	$437,200	$423,000	$411,200	$412,300	$406,000	$436,000
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	$24,800	$132,700	$104,800	$56,600	$80,400	$90,800	$91,600
MORTGAGE NOTES PAYABLE	1,800	100	0	0	0	0	0
CURRENT INCOME TAXES	(1,300)	6,900	2,600	200	1,100	1,000	700
DEFERRED INCOME TAXES	81,000	16,600	5,700	30,000	23,200	21,800	27,100
PAYABLE TO AFFILIATES	121,700	140,400	154,900	162,200	153,800	146,200	158,300
TOTAL LIABILITIES	228,000	296,700	268,000	249,000	258,500	259,800	277,700
COMMON STOCK	0	0	0	0	0	0	0
ADDITIONAL PAID-IN CAPITAL	123,600	123,600	123,600	123,600	123,600	123,600	123,600
RETAINED EARNINGS	98,900	263,600	317,600	355,600	379,600	406,600	436,600
LESS: DIVIDENDS PAID	0	246,700	286,200	317,000	349,400	384,000	401,900
TOTAL STOCKHOLDERS' EQUITY	222,500	140,500	155,000	162,200	153,800	146,200	158,300
	$450,500	$437,200	$423,000	$411,200	$412,300	$406,000	$436,000

2024255983

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

MISSION VIEJO REALTY GROUP INC.
FIVE YEAR PLAN 1989 - 1993

PROJECTION OF CONSOLIDATED CASH FLOW
(In thousands of dollars)

	ACTUAL 1983	ACTUAL 1988	1989	1990	1991	1992	1993	TOTAL 1989 - 1993
SOURCES:								
LAND AND BUSINESS PROPERTIES SALES	$45,100	$334,300	$210,200	$105,700	$156,300	$155,900	$165,400	$793,500
HOUSING SALES	181,300	217,700	70,200	54,800	58,600	28,800	0	212,400
OTHER	11,800	15,800	21,100	15,800	7,000	8,100	4,500	56,500
TOTAL CASH SOURCES	238,200	567,800	301,500	176,300	221,900	192,800	169,900	1,062,400
REQUIREMENTS:								
DEVELOPMENT EXPENDITURES	91,500	211,500	136,400	83,500	75,500	75,400	68,000	438,800
INVENTORY REPLACEMENT PROGRAM	0	0	25,000	0	25,000	0	25,000	75,000
CAPITAL EXPENDITURES	3,900	300	300	500	500	500	500	2,300
OPERATING EXPENSES	33,100	43,600	39,400	39,000	31,700	29,400	29,700	169,200
INCOME & PROPERTY TAXES (REFUND)	(11,800)	93,100	59,500	11,600	30,300	28,000	23,400	152,800
INTEREST	20,100	7,100	15,900	18,200	18,100	17,300	17,500	87,000
TOTAL CASH REQUIREMENTS	136,800	355,600	276,500	152,800	181,100	150,600	164,100	925,100
CASH GENERATED	$101,400	$212,200	$25,000	$23,500	$40,800	$42,200	$5,800	$137,300
DIVIDENDS	$0	$196,700	$39,500	$30,800	$32,400	$34,600	$17,900	$155,200
LINE REPAYMENT/(BORROWING)	$101,400	$15,500	($14,500)	($7,300)	$8,400	$7,600	($12,100)	($17,900)
PAYABLE TO AFFILIATES	$121,700	$140,400	$154,900	$162,200	$153,800	$146,200	$158,300	

2024255984

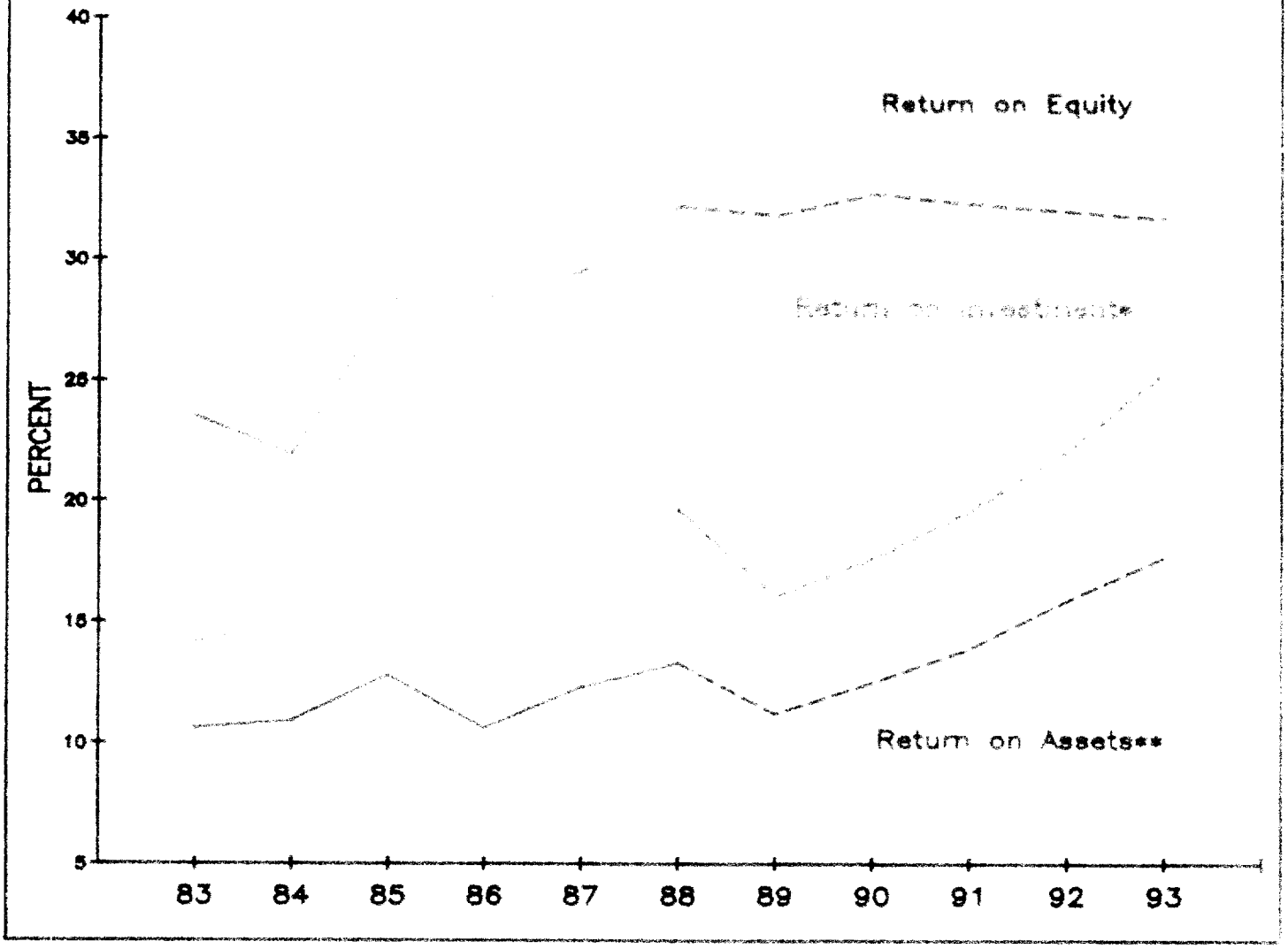
Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

Selected Statistics

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

SELECTED STATISTICS
2024255985

PHILIP MORRIS COMPANIES INC.
RATES OF RETURN



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Return on Total Assets	10.6%	10.9%	12.8%	10.6%	12.3%	13.3%	11.2%	12.5%	13.9%	15.9%	17.7%
Return on Investment	14.1	15.1	17.8	14.8	17.6	19.6	16.0	17.6	19.6	22.1	25.4
Return on Stockholders' Equity	23.5	21.9	28.4	28.4	29.5	32.2	31.8	32.7	32.3	32.0	31.7

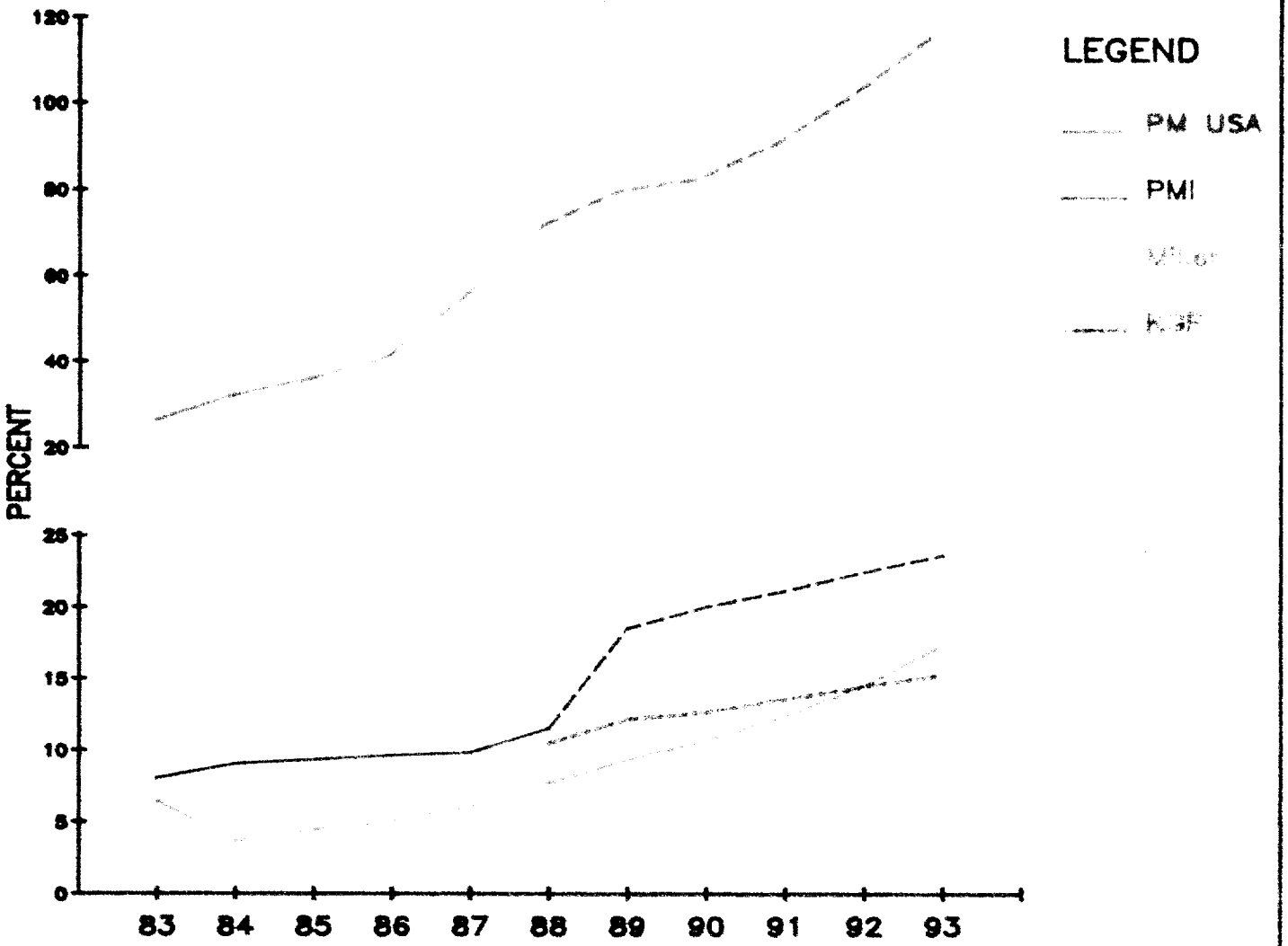
* Net income plus after-tax interest expense as a percentage of the average of beginning of year and end of year total debt plus total equity.

** Net income plus after-tax interest expense as a percentage of the average of beginning of year and end of year total assets. 1988 and 1985 based on weighted average.

2024255986

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

OPERATING COMPANY RETURN ON ASSETS



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
PM USA	26.4%	32.1%	36.0%	41.0%	55.1%	71.5%	79.6%	82.2%	90.3%	101.6%	114.9%
PM INTERNATIONAL	8.0	9.0	9.3	9.6	9.8	11.5	18.5	20.0	21.1	22.4	23.6
MILLER	6.4	3.6*	4.4	5.0	6.0	7.7	9.3	10.7	12.4	14.5	17.4
KGF						10.5**	12.2	12.7	13.6	14.5	15.3

*Excludes Trenton write-down.

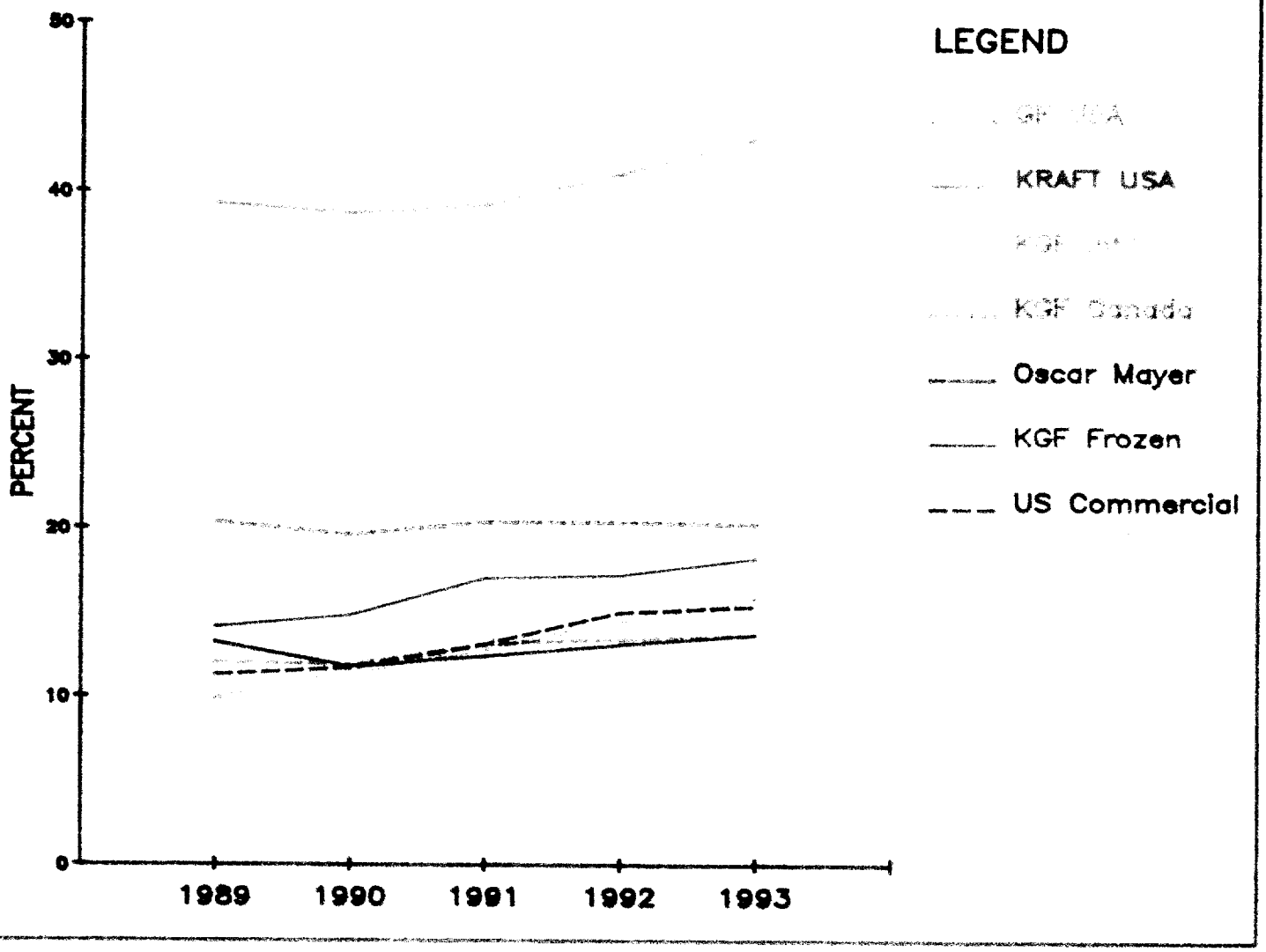
**Based on pro-forma financials and excludes the 1988 restructuring.

Note: Return on assets is defined as net income plus after-tax interest expense divided by the average of beginning and end of year total assets, excluding goodwill.

2024255987

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

KGF GROUP RETURN ON ASSETS



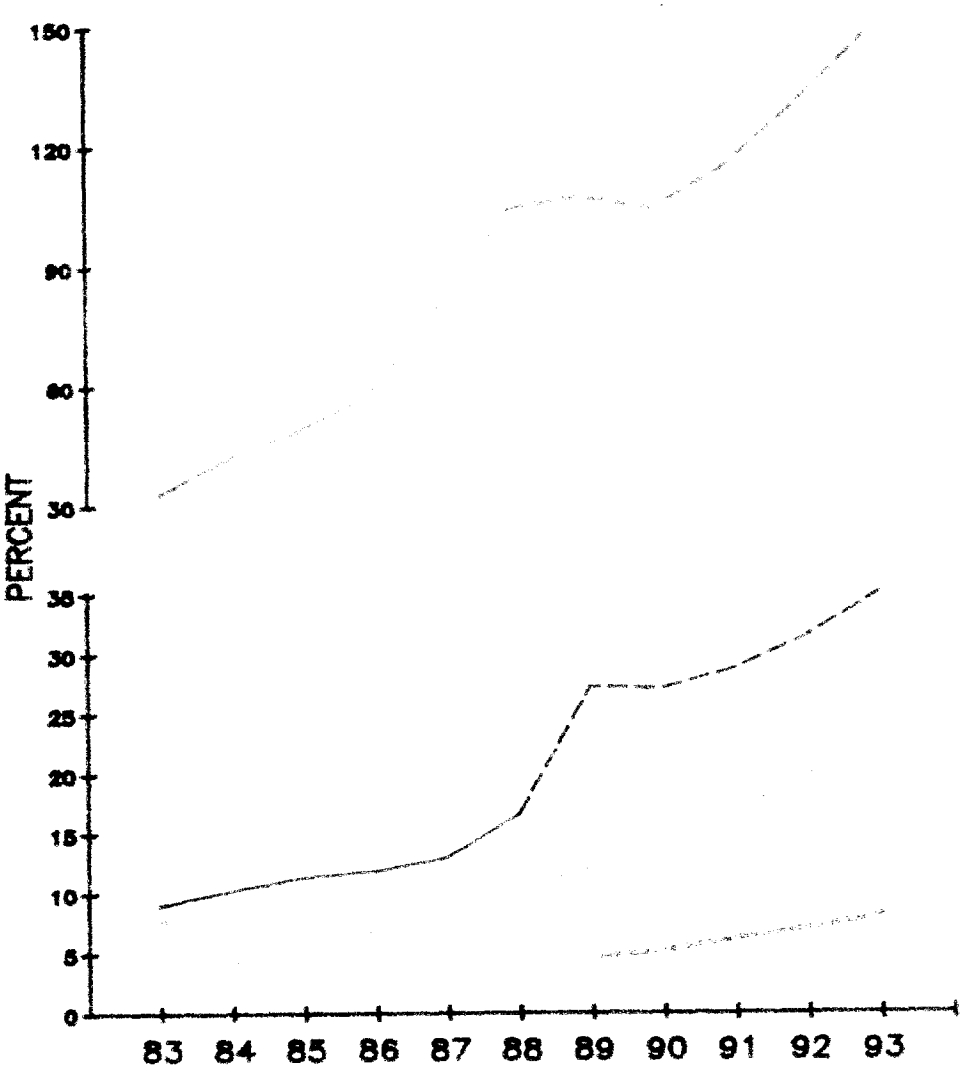
	1989	1990	1991	1992	1993
GF USA	9.9%	11.4%	12.8%	14.5%	15.8%
Kraft USA	39.3	38.7	39.2	41.1	43.2
KGF Int'l	12.0	11.9	13.1	13.4	13.7
KGF Canada	20.4	19.6	20.4	20.4	20.3
Oscar Mayer	13.2	11.8	12.4	13.1	13.7
KGF Frozen	14.1	14.8	17.0	17.2	18.2
US Commercial	11.3	11.7	13.1	15.0	15.4

Note: Return on assets is defined as net income plus after-tax interest expense divided by the average of beginning and end of year total assets, excluding goodwill.

2024255988

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

OPERATING COMPANY RETURN ON INVESTMENT



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
PM USA	32.3%	41.7%	48.7%	57.6%	79.1%	104.0%	107.2%	103.9%	114.2%	129.4%	147.4%
PM INTERNATIONAL	9.0	10.3	11.4	11.9	13.0	16.6	27.3	27.1	28.8	31.5	35.1
MILLER	7.9	4.2*	5.6	6.8	8.1	10.3	12.3	14.4	16.8	19.9	24.3
KGF							4.6	5.2	6.2	7.0	8.0

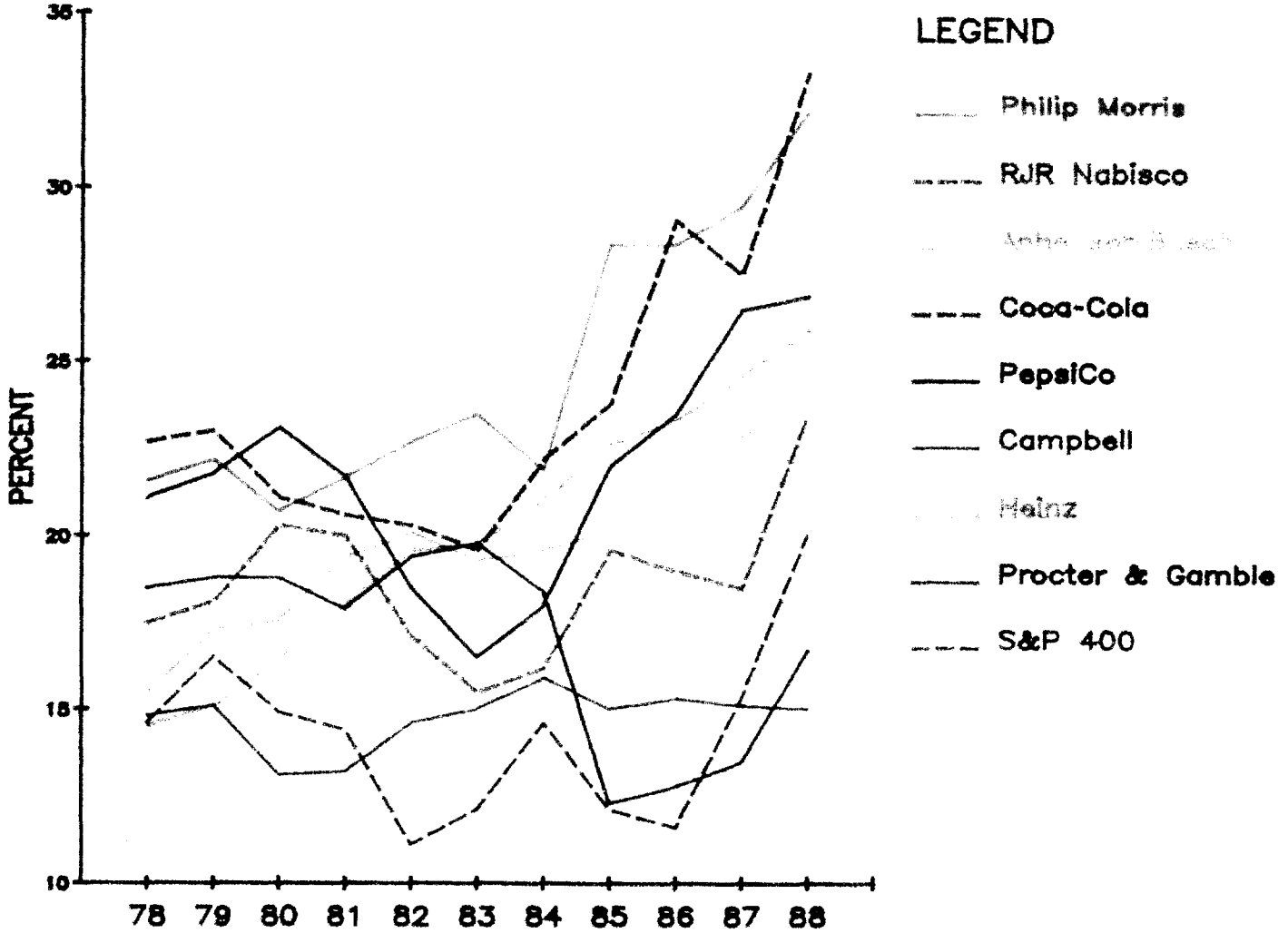
*Excludes Trenton write-down.

Note: Return on investment is defined as net earnings plus after-tax interest expense divided by the average of total assets less non-interest bearing liabilities at the beginning and end of the period. For purposes of calculating investment in PM operating companies, goodwill, excise taxes and deferred income taxes have been allocated to the appropriate operating company and operating company debt has been transferred from the operating companies to Corporate.

2024255989

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

COMPARISON OF HISTORICAL RETURN ON COMMON EQUITY



	1978	1983	1988
Philip Morris	21.5%	23.5%	32.2%
RJR Nabisco	17.5	15.5	23.5
Anheuser-Busch	15.5	19.3	23.9
Coca-Cola	22.7	19.6	33.3
PepsiCo	21.1	16.5	26.9
Campbell	14.8	15.0	15.1
Heinz	14.5	19.8	25.9
Procter & Gamble	18.5	19.8	16.7
S & P 400	14.6	12.1	19.8*

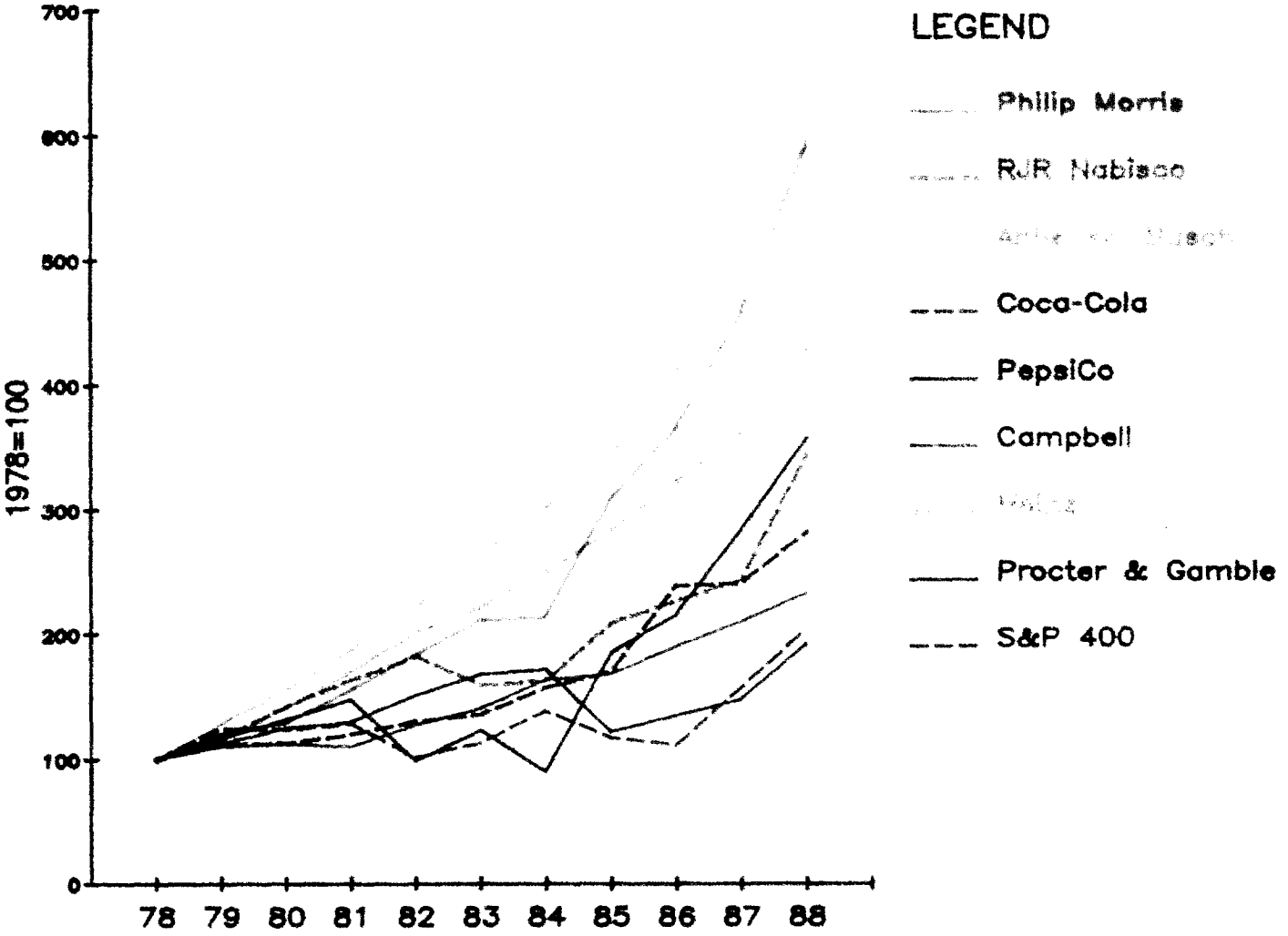
*CPD estimate.

Note: Return on common equity is defined as net income divided by the average of beginning and end of year common equity.

2024255990

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

COMPARISON OF HISTORICAL EARNINGS PER SHARE GROWTH



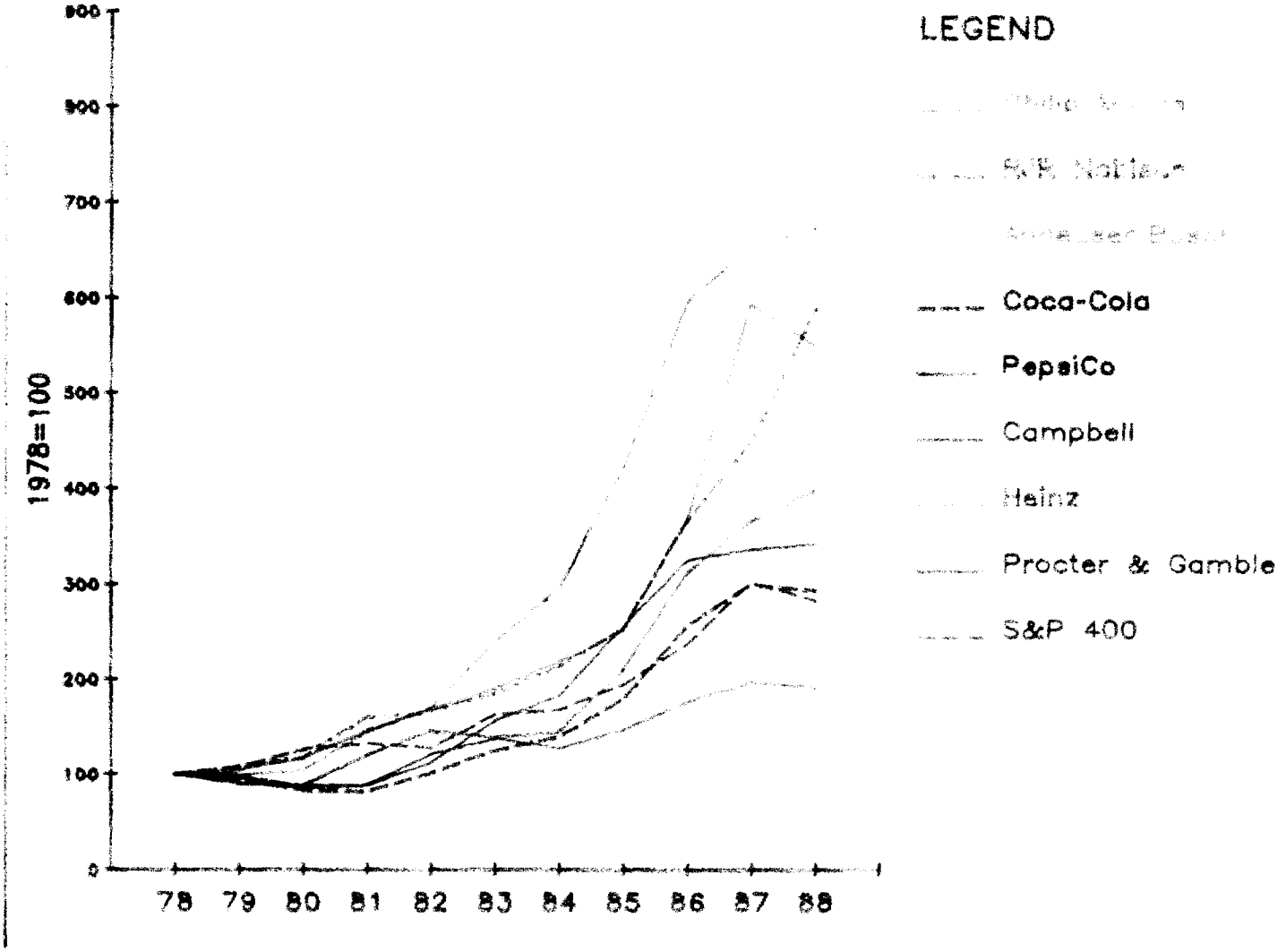
	1978	1983	Growth Rate 1978-1983	1988	Growth Rate 1983-1988
Philip Morris	$ 1.69	$ 3.58	16.2%	$ 10.03	22.9%
RJR Nabisco	1.72	2.74	9.8%	5.92	16.7%
Anheuser-Busch	0.41	1.09	21.6%	2.45	17.6%
Coca-Cola	1.01	1.37	6.3%	2.85	15.8%
PepsiCo	0.81	1.00	4.3%	2.90	23.7%
Campbell	0.91	1.28	7.1%	2.12	10.6%
Heinz	0.68	1.51	17.3%	2.91	14.0%
Procter & Gamble	3.10	5.22	11.0%	5.96	2.7%
S & P 400	13.04	14.77	2.5%	26.57	12.5%
Consumer Price Index	65.20	99.60	8.8%	118.30	3.5%

2024255991

Note: Based on fully-diluted earnings per share from continuing operations, excluding extraordinary and other special items.

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

COMPARISON OF HISTORICAL STOCK PRICE PERFORMANCE*



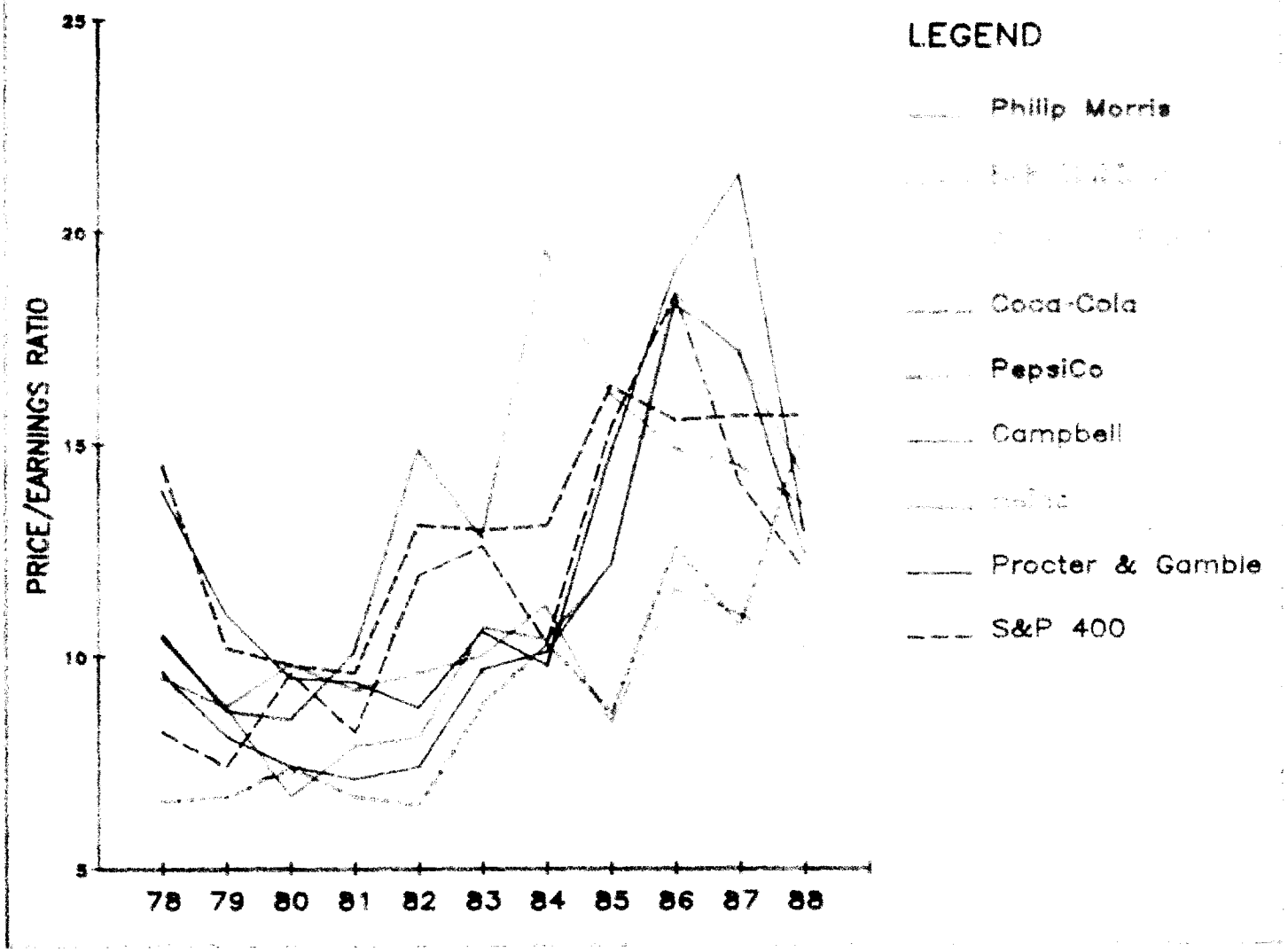
	1978	1983	Growth Rate 1978-1983	1988	Growth Rate 1983-1988
Philip Morris	$ 16.56	$ 31.56	13.8%	$ 91.25	23.7%
RJR Nabisco	11.75	21.69	13.0%	69.25	26.1%
Anheuser-Busch	3.75	11.31	24.7%	31.69	22.9%
Coca-Cola	13.69	17.13	4.6%	40.13	18.6%
PepsiCo	9.25	12.81	6.7%	36.81	23.5%
Campbell	8.63	13.50	9.4%	29.56	17.0%
Heinz	6.50	15.50	19.0%	43.75	23.1%
Procter & Gamble	41.56	56.88	6.5%	79.38	6.9%
S & P 400	107.12	174.88	10.3%	302.63	11.6%

2024255992

*Average of high and low for the calendar year.

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

COMPARISON OF HISTORICAL PRICE/EARNINGS RATIOS

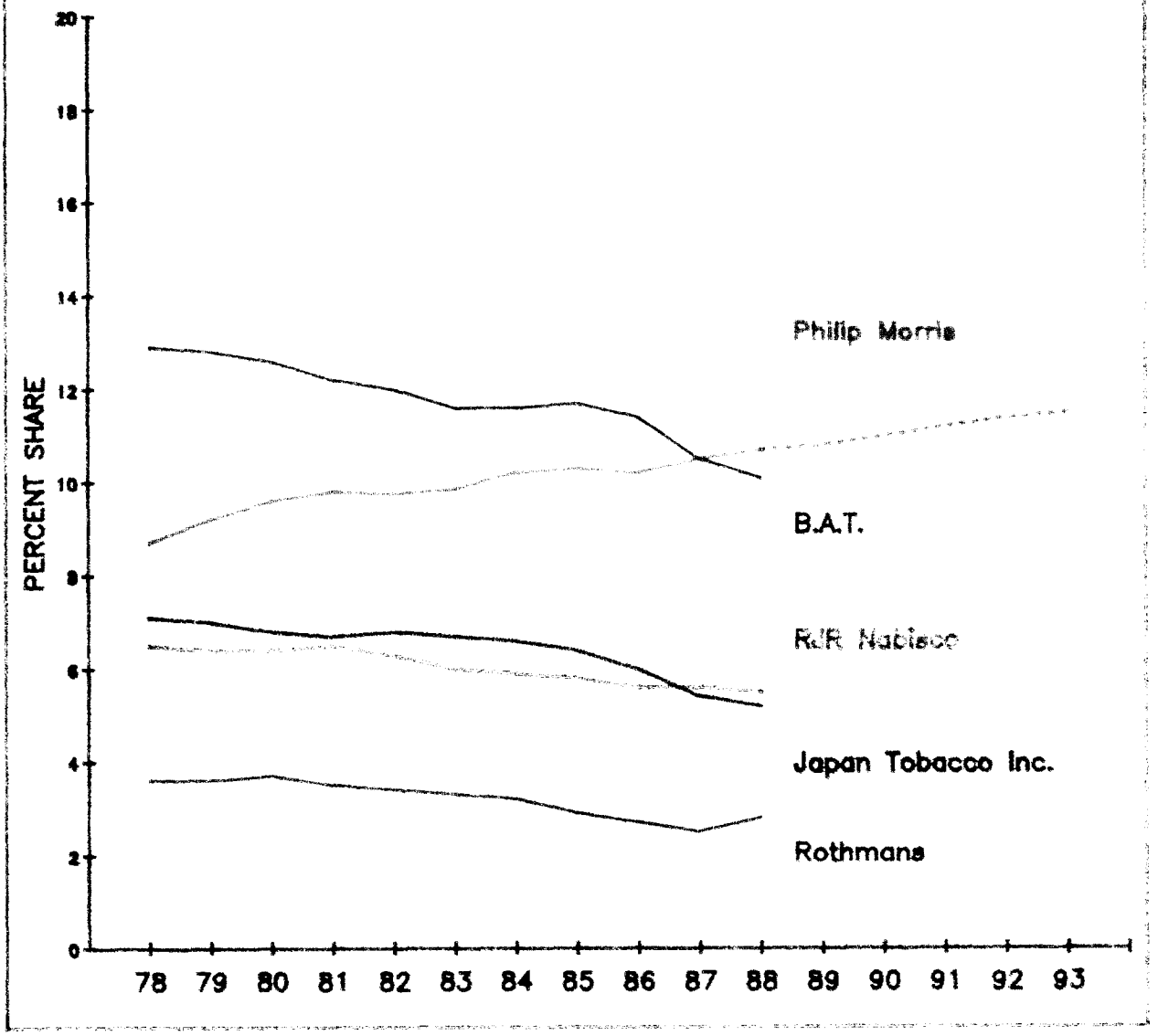


	1978	1983	1988
Philip Morris	10.4X	10.0X	10.2X
RJR Nabisco	6.6	8.9	15.4
Anheuser-Busch	9.7	9.6	12.9
Coca-Cola	14.5	13.0	15.7
PepsiCo	10.5	12.8	13.6
Campbell	9.6	9.7	12.4
Heinz	9.5	10.7	14.2
Procter & Gamble	13.9	10.6	13.0
S & P 400	8.2	12.6	12.0

2024255993

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

WORLD CIGARETTE MARKET SHARES



	1978	1983	1988	1993
Philip Morris	8.7%	9.9%	10.7%	11.5%
British-American Tobacco Co.	12.9	11.6	10.1	
Japan Tobacco Inc.	7.1	6.7	5.2	
RJR Nabisco	6.5	6.0	5.5	
Rothmans	3.6	3.3	2.8	
Other	61.2	62.5	65.7	
	100.0%	100.0%	100.0%	
Total World Market (trillions of units)	4.2	4.6	5.2	5.6

2024255994

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

PHILIP MORRIS COMPANIES INC.
TWENTY-YEAR FINANCIAL COMPARISONS
($ In millions, except per share amounts)

	1993	1992	1991	1990	1989	1988	1987	1986	1985
SUMMARY OF OPERATIONS									
Operating Revenues	62,089	57,475	53,311	49,103	45,583	31,742	28,183	25,883	16,267
Cost of Sales:									
Cost of Products Sold	29,713	27,665	25,844	23,909	22,845	12,857	11,594	11,360	6,517
Federal Excise Taxes	2,333	2,292	2,247	2,201	2,156	2,127	2,085	2,075	2,049
Foreign Excise Taxes	4,719	4,411	4,123	3,829	3,564	3,755	3,331	2,653	1,766
Income From Operations	11,802	10,472	9,278	8,212	6,984	4,715	4,257	3,776	2,820
Earnings Before Income Taxes	9,771	8,168	6,798	5,664	4,562	3,727	3,344	2,765	2,353
Pre-Tax Profit Margins	15.7%	14.2%	12.8%	11.5%	10.0%	11.7%	11.9%	10.7%	14.5%
Provisions for Income Taxes	3,904	3,292	2,750	2,305	1,872	1,663	1,502	1,287	1,098
Net Earnings	5,867	4,876	4,048	3,359	2,690	2,337	1,842	1,478	1,255
Net Earnings Per Share	24.98	20.84	17.36	14.46	11.62	10.03	7.75	6.20	5.24
Dividends Declared Per Share	10.00	8.40	7.00	5.80	4.95	4.05	3.15	2.475	2.00
Weighted Average Shares	235	234	233	232	232	233	238	239	240
Capital Expenditures (Consumer Products)	1,000	1,000	1,100	1,200	1,200	1,024	718	678	347
Depreciation (Consumer Products)	1,027	996	951	884	830	608	564	514	367
Property, Plant & Equipment (Gross)	16,733	15,872	15,018	14,069	12,994	11,932	9,398	8,486	7,519
Property, Plant & Equipment (Net) (Consumer Products)	9,299	9,359	9,382	9,271	8,976	8,648	6,582	6,237	5,684
Inventories (Consumer Products)	6,627	6,430	6,213	5,957	5,664	5,384	4,154	3,836	3,827
Current Assets	10,715	10,311	9,876	9,029	8,544	8,150	6,572	5,914	5,893
Working Capital	1,263	1,134	567	159	162	182	1,396	1,432	1,926
Consumer Products Assets	35,047	35,055	35,033	34,469	34,101	33,791	18,547	17,207	16,892
Financial Services and Real Estate Assets	8,154	6,823	5,705	4,730	3,888	3,169	2,890	2,275	1,820
Total Assets	43,201	41,878	40,738	39,199	37,989	36,960	21,437	19,482	18,712
Consumer Products Debt	4,706	8,685	11,846	13,612	15,239	16,443	6,355	6,889	7,887
Financial Services and Real Estate Debt	3,616	3,026	2,503	2,142	1,834	1,504	1,378	1,141	944
Total Debt	8,322	11,711	14,349	15,754	17,073	17,947	7,733	8,030	8,831
Stockholders' Equity	20,284	16,729	13,769	11,299	9,252	7,679	6,823	5,655	4,737
Net Earnings Reinvested	3,517	2,910	2,417	2,013	1,542	1,396	1,093	888	776
Common Dividends Declared as % of Net Earnings	40.1%	40.3%	40.3%	40.1%	42.7%	40.3%	40.6%	39.9%	38.1%
Book Value Per Common Share	86.35	71.49	59.04	48.64	39.97	33.24	28.83	23.77	19.85
High-Low Market Price (nearest $)	--	--	--	--	--	102-81	125-73	78-44	48-36
Closing Price Year-End (nearest $)	--	--	--	--	--	102	85	72	44
Price/Earnings Ratio Year-End	--	--	--	--	--	10	11	11	8
Number of Common Shares Year-End	235	234	233	232	232	231	237	238	239

Note: The company's financial services and real estate subsidiaries, previously accounted for by the equity method, have been consolidated in 1988 in accordance with Statement of Financial Accounting Standards No. 94. Prior year amounts have been restated to conform to the current year's presentation, which restatements had no effect on previously reported net earnings, earnings per share or stockholders' equity. For the years prior to 1983, current assets, working capital and the components of total assets have not been restated for real estate.

Per share figures adjusted for all stock splits.

2024255995

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
14,102	13,256	11,720	10,886	9,822	8,303	6,633	5,202	4,294	3,642	3,011
5,722	5,550	5,423	5,149	4,580	3,779	3,072	2,402	1,967	1,657	1,290
2,041	1,983	1,180	1,169	1,105	1,037	961	862	778	686	620
1,635	1,527	1,435	1,411	1,389	1,122	703	490	381	392	349
2,030	1,986	1,677	1,431	1,244	1,180	944	762	609	488	403
1,632	1,610	1,303	1,080	939	906	746	626	472	361	298
11.6%	12.1%	11.1%	9.9%	9.6%	10.9%	11.2%	12.0%	11.0%	9.9%	9.9%
743	706	521	420	390	398	337	291	206	149	122
889	904	782	660	549	508	409	335	266	212	176
3.62	3.58	3.11	2.64	2.20	2.04	1.69	1.40	1.12	.91	.79
1.70	1.45	1.20	1.00	.80	.625	.513	.391	.288	.231	.194
245	252	251	250	249	249	241	239	238	234	223
298	566	918	1,019	751	629	566	280	220	245	216
341	294	250	211	178	133	105	78	64	50	38
5,581	5,699	5,284	4,514	3,574	2,804	2,198	1,578	1,308	975	741
4,014	4,381	4,178	3,583	2,806	2,214	1,723	1,188	981	840	650
2,653	2,599	2,834	2,922	2,499	2,235	2,077	1,728	1,594	1,416	1,228
3,640	3,453									
1,289	1,117									
8,899	9,159									
981	749									
9,880	9,908	9,756	9,180	7,362	6,379	5,608	4,048	3,582	3,134	2,653
2,566	3,054	3,728	3,804	2,800	2,507	2,365	1,547	1,514	1,418	1,219
436	141	83	3	1	9	7	17	12	25	20
3,002	3,195	3,811	3,807	2,801	2,516	2,372	1,564	1,526	1,443	1,239
4,093	4,034	3,663	3,234	2,837	2,471	2,115	1,690	1,430	1,228	975
472	538	480	408	350	352	284	254	197	157	132
46.8%	40.5%	38.6%	37.9%	36.3%	30.6%	30.6%	27.9%	25.7%	25.7%	24.8%
16.86	16.14	14.55	12.89	11.37	9.92	8.51	7.05	6.01	5.17	4.26
42-31	36-27	34-22	28-21	24-15	19-16	19-14	16-13	16-13	15-10	15-9
40	— 36	30	24	22	18	18	16	16	13	12
11	10	9	9	9	8	10	11	13	14	15
243	250	252	251	250	249	249	240	238	237	229

2024255996

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000

2024255997

Source: https://www.industrydocuments.ucsf.edu/docs/yjbl0000